

**For discussion  
on 17 March 2023**

**Legislative Council Panel on Financial Affairs**

**Mandatory Provident Fund Schemes Authority  
Proposed Budget for Financial Year 2023-24 and  
Latest Progress of the eMPF Platform Project**

**PURPOSE**

This paper highlights the main features of the proposed Budget of the Mandatory Provident Fund Schemes Authority (“MPFA”) for the financial year (“FY”) 2023-24 and the latest progress of the eMPF Platform Project.

**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.

3. 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 corporate objectives. The draft corporate plan, together with the budget of estimated expenditure, must be submitted to the Financial Secretary for approval.

**KEY CORPORATE ACTIVITIES IN FY2023-24**

4. When preparing the corporate plan for FY2023-24, the MPFA reviewed the internal and external operating environment, and considered how to incorporate in its corporate plan the spirit of President Xi Jinping’s important speech delivered on 1 July 2022. The MPFA management team considered that putting scheme members’ interests first, being the overarching theme of MPFA’s work, is in line with the people-centred philosophy underscored in President Xi’s speech and will remain a dominant theme of the corporate plan in the coming year in pursuit of interests of MPF participants.

***(i) eMPF Platform Project***

5. The eMPF Platform project as an important reform measure of the MPF System is expected to benefit the scheme members, employers and MPF sector, and will continue to be accorded top priority by the MPFA.

6. In 2023-24, the MPFA will continue to monitor the work of the eMPF Platform Company Limited (“eMPF Company”) in implementing the eMPF Platform project, supporting the Government’s preparation of related subsidiary legislation, and amending MPF guidelines for the implementation of the eMPF Platform. The MPFA will also promote to the public the key features and benefits of the eMPF Platform, laying the groundwork for the various publicity and promotional efforts to be launched which aims to increase the take-up rate of the eMPF Platform in due course.

7. Details about the latest development of the eMPF Platform project, including the funding requirements that are separate from the MPFA’s budget, are set out at **Annex I**.

***(ii) Investment Return of the MPF System***

8. As at end-December 2022, total MPF assets amounted to around \$1,050 billion. About \$210 billion of the total MPF assets was investment returns, net of fees and charges, representing a net annualised internal rate of return of 2.4%, which is higher than the inflation rate over the same period of 1.8%.

9. There has been increasing aspiration from the community for more stable MPF investment return. To this end, as announced in the Budget on 22 February 2023, the MPFA and the Hong Kong Monetary Authority will take forward the initiatives to facilitate MPF investment in Government institutional green bonds and infrastructure bonds, and study the possibility of setting up a low-cost MPF fund with stable return.

***(iii) Regulation and Supervision of the MPF System***

10. In respect of supervision of the MPF industry, the MPFA will monitor trustees’ onboarding process to the eMPF Platform and their compliance with the fee requirement in the legislation; enhance trustees’ investment governance standard; require trustees to adopt sustainable investing and make relevant disclosure; and raise the standards amongst trustees and intermediaries.

11. To protect scheme members' retirement benefits, in addition to putting forward legislative proposals, the MPFA will continue to review and refine its existing strategies in tackling employers' non-compliance, enhance collaboration with labour unions in providing timely assistance to employees, and enhance employees' awareness of their MPF rights.

12. In 2023-24, the MPFA will also kick-start the review of the minimum and maximum relevant income levels for calculation of MPF contributions, review the regulatory regime for permissible investments of MPF funds, and facilitate scheme members' post-retirement management of MPF benefits.

***(iv) Member Education and Engagement***

13. The MPFA will continue its publicity and education work to enhance public understanding of MPF investment and promote stakeholders' support of the MPF System. Internally, the MPFA will keep up with its efforts to streamline operations, re-engineer processes, digitalise daily operations, maintain financial health, and enhance organisation effectiveness.

**FY2023-24 PROPOSED BUDGET**

14. A summary of the MPFA's FY2023-24 proposed Budget is shown below, with details at **Annex II**.

(HK\$ million ("M"))	FY2022-23 Approved Budget	FY2022-23 Revised Estimates	FY2023-24 Proposed Budget	Increase/(decrease) from FY2022-23 Approved Budget		Increase/(decrease) from FY2022-23 Revised Estimates	
				\$	%	\$	%
<b>Income</b>	442.81	268.60	440.07	(2.74)	(0.6%)	171.47	63.8%
<b>Operating Expenditure</b>	579.95	552.23	607.62	27.67	4.8%	55.39	10.0%
<b>Deficit</b>	(137.14)	(283.63)	(167.55)	30.41	22.2%	(116.08)	(40.9%)
<b>Balance of Capital Grant</b>	2,263.48	2,078.27	1,910.72	(352.76)	(15.6%)	(167.55)	(8.1%)
<b>Capital Expenditure</b>	117.79	119.19	20.00	(97.79)	(83.0%)	(99.19)	(83.2%)
<b>Total Expenditure</b>	697.74	671.42	627.62	(70.12)	(10.0%)	(43.80)	(6.5%)

15. For 2023-24, the total expenditure (including operating and capital expenditures) of the proposed Budget is expected to be \$627.62 million (“M”), which is 10% lower than that of the FY2022-23’s approved Budget (\$697.74M) and 6.5% less than the revised estimates (\$671.42M). There will be a projected **operating deficit of \$167.55M**, showing an improved financial position of the MPFA vis-à-vis the deficit situation (\$283.63M) under the revised estimates for 2022-23.

### *Income*

16. In 1998, the Government provided the MPFA with a Capital Grant of \$5 billion for meeting its set-up and operating costs before it could operate on a self-financing basis and recover its costs from the collection of statutory and other fees, including the annual registration fee (“ARF”)<sup>1</sup> on MPF registered schemes payable by MPF trustees, and fees from MPF intermediaries and registered occupational retirement schemes (“ORSO schemes”). The other major source of income is investment income from the Capital Grant. As at the end of FY2022-23, the balance of Capital Grant is estimated to be \$2.08 billion.

17. The estimated total income for FY2023-24 is about **\$440.07M**, which is \$171.47M or 63.8% higher than the revised estimates for FY2022-23 (\$268.60M). Major sources of income are:

- (i) ARF (\$300.96M)<sup>2</sup>;
- (ii) investment income (\$55.85M);
- (iii) interest income on bank deposits (\$41.08M); and
- (iv) fee income from MPF intermediaries, ORSO schemes and financial penalties (\$20.16M).

18. The increase in income for FY2023-24 is mainly due to the increase in estimated investment income (\$194.04M/ 140.4%) as a result of a higher forecast return from -11.27% to 5.77%. The increase is netted off by the decrease in projected ARF income (\$37.43M/ 11.1%).

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<sup>1</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.

<sup>2</sup> An assessment of ARF income against the cost which should be recovered by ARF is at **Annex III**.

## *Operating Expenditure*

19. The estimated operating expenditure for FY2023-24 is **\$607.62M**, which is \$55.39M or 10.0% higher than the revised estimates for FY2022-23 (\$552.23M). The estimated expenditure comprises the following key items -

- (i) **Personal Emoluments (“PE”)** – the estimated PE costs for FY2023-24 is \$414.96M, which is \$47.17M or 12.8% more than that of the revised estimates for FY2022-23 (\$367.79M). The increase is mainly attributable to (i) an increase in budgeted regular positions from 581 to 590; (ii) the provision for annual salary increment of \$10.97M<sup>3</sup>; and (iii) the additional provision of \$14.71M for implementing a revised pay structure with effect from 1 April 2023 and slightly raising the budget provision of performance-linked variable pay for staff below executive directorate level from 10% to 12% of salary cost for enhancing MPFA’s capability in talent retention<sup>4</sup>. The total PE estimates will be 69.6% of the total operating expenditure for FY2023-24, similar to that of FY2022-23 (69.1% according to the revised estimates).
- (ii) **Depreciation and Amortisation** – the estimated expenditure for FY2023-24 is \$52.70M, which is \$27.60M or 110.0% more than the revised estimate for FY2022-23 (\$25.10M), mainly due to the full-year effect of costs of renovation / infrastructure for the new consolidated office incurred in late FY2022-23;
- (iii) **Office Accommodation Expenses** – the estimated expenditure for FY2023-24 is \$45.15M, which is \$20.79M or 31.5% less than the revised estimate for FY2022-23 (\$65.94M). The provision caters for rents, management fees and electricity expenses for MPFA offices. The reduction is mainly due to the decrease in rental expenses following the impending office consolidation in 2023;

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<sup>3</sup> The provision is for effecting annual salary adjustment to eligible staff of MPFA, with a range of 3.7% to 4.8%, with effect from 1 April 2023 as approved by the MPFA Management Board after taking into account various factors including an average salary adjustment of 3.7% forecast for 2023 in the market based on market trend data collected from consulting firms, inflation rate, individual staff performance, etc..

<sup>4</sup> The staff attrition rate of MPFA in 2022 was 20.1%.

- (iv) **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 FY2023-24 is \$16.57M, which is \$1.87M (12.7%) more than the revised estimate for FY2022-23 (\$14.70M), mainly due to the maintenance of more business operation systems and security equipment;
- (v) **Member Education and Engagement** – the provision is mainly for ongoing programmes on MPF messages and education, etc.. The estimated expenditure for FY2023-24 is \$12.79M, which is \$1.54M (10.7%) less than the revised estimate for FY2022-23 (\$14.33M), mainly because some member education initiatives would be shouldered by the eMPF Company upon launch of the eMPF Platform, and member education programmes organised by the MPFA would be reduced correspondingly so as to avoid overlapping; and
- (vi) **One-off Projects** – the provision is mainly for providing training to MPF intermediaries and costs for project-based personnel. The estimated expenditure for FY2023-24 is \$10.19M, which is \$4.65M or 31.3% less than the revised estimate for FY2022-23 (\$14.84M). The reduction is mainly due to fewer one-off projects and thus less personnel costs for project implementation (representing 15 project posts with a net decrease of 5 from 20 for FY2022-23).

### ***Capital Expenditure***

20. The total estimated capital expenditure for FY2023-24 is about **\$20.00M**, which is \$99.19M or 83.2% less than the revised estimate for FY2022-23 (\$119.19M), mainly because the one-off set-up costs for the consolidated office in FY2022-23 will not be incurred in FY2023-24.

### ***Capital and Reserve***

21. In FY2023-24, the MPFA estimates an **operating deficit of \$167.55M**. The shortfall in operating expenditure will be met by the balance of the Capital Grant, bringing it down from \$2.08 billion to \$1.91 billion by the end of March 2024. To ensure MPFA's long-term financial sustainability, 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.

## COMPARISON OF THE APPROVED BUDGET WITH THE REVISED ESTIMATES FOR FY2022-23

22. A comparison of the Approved Budget and Revised Estimates for FY2022-23 is as follows –

(HK\$ M)	FY2022-23 Approved Budget	FY2022-23 Revised Estimates	Increase/(decrease) from FY2022-23 Approved Budget	
			\$	%
<b>Income</b>	442.81	268.60	(174.21)	(39.3%)
<b>Operating Expenditure</b>	579.95	552.23	(27.72)	(4.8%)
<b>Deficit</b>	(137.14)	(283.63)	146.49	106.8%
<b>Balance of Capital Grant</b>	2,263.48	2,078.27	(185.21)	(8.2%)
<b>Capital Expenditure</b>	117.79	119.19	1.40	1.2%
<b>Total Expenditure</b>	697.74	671.42	(26.32)	(3.8%)

### *Income*

23. The revised total income for FY2022-23 (**\$268.60M**) is \$174.21M or 39.3% less than the approved Budget (\$442.81M), mainly due to a substantially lower estimate on the full-year investment return (i.e. from 2.9% to -11.27%) that reduces investment income, and a lower estimate of ARF income.

### *Operating Expenditure*

24. The revised operating expenditure for FY2022-23 is **\$552.23M**, which is \$27.72M or 4.8% less than the approved Budget (\$579.95M), mainly due to the following reasons:

- (i) decrease in PE costs of \$8.88M attributable to staff turnover, the time lag in filling vacancies and the lower-than-budgeted salary expenses for some replacements and new appointments;
- (ii) decrease in depreciation and amortisation of \$16.73M mainly due to a time lag in funding provision and its expected utilisation; and
- (iii) decrease in one-off projects of \$2.28M mainly because (i) the budgeted personnel costs for project implementation were reduced by \$1.25M due to time lag in filling vacancies; and (ii) the budget for young engagement ambassadors for the publicity and promotion

campaigns was reduced by \$1.03M as part of the personnel costs would be subsidised by Job Creation Scheme under the Anti-epidemic Fund of the Government.

### ***Capital Expenditure***

25. The revised capital expenditure for FY2022-23 is **\$119.19M**, which is \$1.40M or 1.2% higher than the Approved Budget (\$117.79M), mainly due to the additional cost on the audio-visual system and the replacement of desktop computers with laptop computers to enable modernisation of the MPFA on the occasion of the upcoming office relocation.

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

26. We note that the financial position of the MPFA in FY2023-24 will improve due to an increase in forecast investment income, and the capital expenditure and rental expenses will also fall following office consolidation. As compared to FY2022-23, the forecast operating deficit will decrease by around 40%. Whilst recognising the importance of improving the MPFA's remuneration package for attracting and retaining talents, in light of the MPFA's continued deficit position, we suggest the MPFA to continue exercising stringent control on its operational costs for ensuring its long-term financial sustainability.

27. The eMPF Platform project will continue to be a top priority for the MPFA and the eMPF Company in FY2023-24. We support the initiatives to step up project management and expedite the delivery of the eMPF Platform.

### **ADVICE SOUGHT**

28. Members are invited to note the MPFA's proposed Budget for FY2023-24 and the latest progress of the eMPF Platform project.

**Financial Services Branch  
Financial Services and the Treasury Bureau  
March 2023**



**Legislative Council  
Panel on Financial Affairs**

**Latest Progress of the eMPF Platform Project**

**PURPOSE**

This paper briefs Members on the latest progress of the eMPF Platform Project (“the Project”).

**THE eMPF PLATFORM PROJECT**

2. Currently, there are about 4.7 million Mandatory Provident Fund (“MPF”) scheme members with over 10 million accounts scattered across 27 MPF schemes administered by 13 trustees. The lack of a standardized administration platform has contributed to cumbersome administrative work and high cost of the MPF System.

3. As a common and integrated electronic platform, the eMPF Platform seeks to standardize, streamline and automate the administration processes of MPF schemes, thereby enhancing operational efficiency of the MPF System, reducing administration costs and improving user experience. We expect that the average MPF administration fee will reduce by around 30% during the first two years of operation of the eMPF Platform<sup>1</sup>. The administration fee will continue to drop steadily thereafter, with a view to achieving total cumulative cost savings of \$30 billion to \$40 billion for scheme members during the first ten years of operation of the eMPF Platform.

4. During the period from 2019 to 2021, the Legislative Council (“LegCo”) approved a total provision of around \$4.9 billion to fund the software and hardware development, system maintenance and initial operation of the eMPF Platform. At the same time, the Mandatory Provident Fund Schemes (Amendment) Bill 2021 was passed by LegCo in October 2021, providing a solid legal basis for the implementation of the eMPF Platform.

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<sup>1</sup> According to Mandatory Provident Fund Schemes Authority’s estimate in end-2020, the average MPF administration fee was around 58 basis points (“bps”). It is expected that the average administration fee would drop to about 37 bps during the first two years of operation of the eMPF Platform.

## WORK PROGRESS

5. Further to our last update to the Panel on the Project progress in March 2022<sup>2</sup>, the ensuing paragraphs set out the work progress of the Project over the past year.

### *Development of the Platform*

6. Following an open tender exercise, the Mandatory Provident Fund Schemes Authority (“MPFA”) awarded the contract for the design, building and operation of the eMPF Platform (“the Contract”) to PCCW Solutions Limited (“the Contractor”) in January 2021. In January 2022, the Contract was novated from MPFA to eMPF Platform Company Limited (“the Company”), a wholly owned subsidiary of MPFA, as the latter has gradually built up its own organizational structure and resources since its incorporation in March 2021.

7. Pursuant to the Contract, the Contractor needs to provide three major categories of services as follows –

- (a) *Category A*: software development, including the functional design, development and testing of the eMPF Platform;
- (b) *Category B*: hardware development, covering the setting up and maintenance of production and back-up data centers for the eMPF Cloud; and
- (c) *Category C*: provision of Project operation and services, including the setting up of frontline service centers and back-end administration offices for the Platform.

8. According to the original timeline, the Contractor should complete system development by end-2022 and functional testing by the first quarter of 2023, thereby ensuring that the Platform is ready for phased onboarding of MPF schemes from the second quarter of 2023, with a view to completing all onboarding work and achieving full implementation of the Platform in 2025.

### *Latest progress*

9. Over the past two years, the MPFA and the Company have been overseeing the Contractor’s work progress proactively and closely through a multi-pronged monitoring and reporting mechanism, making their best endeavors

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<sup>2</sup> See LC Paper No. CB(1)117/2022(02).

to ensure the timely delivery of the Project with the quality of the system meeting public expectation. Specifically, some good progress have been made in respect of Categories B (hardware development) and C (operation) streams of services. Yet, the progress of Category A (software development) has been lagging behind. While the functional design of the Platform has been completed, the progress of subsequent system development and testing phase is unsatisfactory. As at end-2022, system development work has yet to be completed.

10. Based on the Contractor's assessment, it is highly likely that the completion of system development work will be deferred to mid-2023. As a result, the completion of subsequent testing work will very likely be deferred to the fourth quarter of 2023. In other words, it is highly likely that the delivery of a fully functional system by the Contractor will be delayed by eight months as compared to the requirement stipulated in the Contract. Nonetheless, the ultimate target of completing the onboarding of all MPF schemes and making the Platform fully functional in 2025 remains unchanged. The Labour and Welfare Bureau's pledge of implementing the abolition of MPF offsetting arrangement no later than 2025 will not be affected.

11. The MPFA and the Company have expressed disappointment and regret over the Contractor's likely failure in delivering the Platform in accordance with the schedule stipulated in the Contract. Given that the eMPF Platform will be an important financial infrastructure and public utility, the MPFA and the Company consider any delay in the delivery of eMPF Platform unacceptable. The MPFA and the Company have taken appropriate actions, including requiring the Contractor to work out a recovery plan to catch up on the progress and minimize the expected delay. Moreover, the Contractor was requested to engage a third-party professional consultant to conduct an independent assessment on the recovery plan to ascertain its feasibility and credibility. The MPFA also proactively updated the public in early 2023 about the Project progress and the potential delay.

12. Apart from issuing warnings to the Contractor, the Company has reserved all its rights under the Contract, including legal actions against the Contractor such as claiming liquidated damages from the Contractor for its delay in system delivery.

13. To prevent further slippage of the Project and safeguard system integrity, the MPFA and the Company have put in place various project management enhancement measures to step up the involvement of the Contractor's top management, project monitoring and resources management.

## MAJOR ACTIVITIES IN THE COMING YEAR

14. To prepare for the launch of the eMPF Platform, besides ensuring that the Contractor will catch up in full steam and effectively execute its recovery plan in respect of system development, the MPFA and the Company will press ahead with the following major activities in the coming year –

- (a) **Determining specific onboarding dates for individual MPF schemes:** Preceded by the five trustees who are willing to get onboard to the eMPF Platform early (“early adopters”), the remaining trustees will get onboard to the Platform in ascending order of their asset-under-management (“AUM”). Based on the Project progress, the MPFA, the Company and the Contractor are working with trustees to draw up the latest timetable for onboarding and relevant data migration work. The MPFA as regulator will closely monitor and assess trustees’ performance in the data migration work and various aspect of their onboarding process, so as to ensure that trustees comply with the statutory requirements by putting in place an effective plan for the implementation of the eMPF Platform and observing the relevant requirements from MPFA;
- (b) **Developing MPF guidelines, drafting Operating Rules and Subscription Agreements:** The Company is drafting the Operating Rules and Subscription Agreements while the MPFA is formulating MPF guidelines to delineate the roles and responsibilities of the MPFA, the Company and trustees following the operation of the eMPF Platform. The target is to complete the relevant work before the first MPF scheme gets onboard to the Platform<sup>3</sup>;
- (c) **Making subsidiary legislation in relation to the eMPF Platform:** The Secretary for Financial Services and the Treasury will, pursuant to the power conferred on him by law, publish notices in the Gazette in batches to designate the implementation of the eMPF Platform for the provision of services, specify the dates on which individual MPF schemes begin to use the Platform and the commencement of the fee control on MPF funds. The relevant notices are subsidiary legislation subject to negative vetting procedure of LegCo. The first batch of notices is expected to be published in the Gazette and tabled before LegCo in early 2024. We

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<sup>3</sup> According to section 19K of the Mandatory Provident Fund Schemes Ordinance (Cap. 485), the Company must put in place a set of Operating Rules to govern the future administration and operation of the eMPF Platform. Moreover, the Company will also enter into Subscription Agreements with trustees as contracts between the two parties to set out the coverage, fees and various legal issues relating to the scheme administration services provided by the Company to trustees via the Platform. To tie in with the implementation of the Platform, MPFA is also streamlining the supervisory and regulatory framework of the MPF System by revising existing MPF guidelines and developing new guidelines.

will brief the Panel on the preparation for the relevant subsidiary legislation in end-2023 or early next year; and

- (d) **Maintaining close communications with stakeholders**: Following the organization of over 100 consultation sessions between December 2021 and July 2022 to tap views from over 3 000 stakeholders on the functions and user experience of the eMPF Platform, the MPFA will work with the Contractor on the planning of the next phase of stakeholder engagement exercise in collaboration with various stakeholders, in particular representatives of the less tech-savvy grassroots and small and medium-sized enterprises. Training will also be arranged for human resources management personnel to prepare them for the implementation of the Platform. Meanwhile, the MPFA, the Company and the Contractor are planning a series of online and offline publicity activities to be rolled out in phases to increase public awareness of the eMPF Platform and boost the digital take-up rate of the Platform in the future.

## FINANCIAL IMPLICATIONS

15. The Government's provision for the Project is mainly used to cover contractual payment in relation to the Platform's development and operational expenses of the Company. The cash flow requirements for the Project in a particular financial year will be earmarked in the Government's estimate and disbursed to the MPFA and the Company in the preceding financial year.

16. The Government has set aside about \$631.9 million for the Project in its revised estimate for the 2022-23 financial year, comprising –

- (a) about \$240 million to cover the development costs of the Platform in the 2023-24 financial year;
- (b) about \$200 million one-off financial assistance to be disbursed to the five early adopters when they complete onboarding to the Platform<sup>4</sup>; and

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<sup>4</sup> Early adopters are trustees which are willing to get onboard to the eMPF Platform early. After extending invitation to all trustees, MPFA has accepted five applications from trustees to become early adopters. They are YF Life Trustees Limited, China Life Trustees Limited, Bank of Communications Trustee Limited, RBC Investor Services Trust Hong Kong Limited and Bank of East Asia (Trustees) Limited. Considering that early adopters need to bear additional technical and operational risks and costs, \$210 million has been set aside within the \$4.9 billion provision as approved by LegCo to support their handling of data cleansing and migration work.

- (c) from the 2023-24 financial year when the Company is expected to roll out the eMPF Platform and start collecting Platform fees from trustees which get onboard to the Platform, the Company should recoup its operational expenses (save for the development costs of the Platform) from fee income so as to achieve self-financing. Since trustees will get onboard to the eMPF Platform in ascending order of their AUM, the Company expects that its Platform fee income in the 2023-24 financial year during the initial onboarding phase will be relatively small and insufficient to cover its full-year operational expenses, resulting in a cash shortfall of about \$200 million. In light of this, the Company has requested the Government to provide a one-off, repayable cash advance in the 2022-23 financial year to support its operation in 2023-24.

17. The Government has set aside about \$234.3 million for the Project in its estimate for the 2023-24 financial year. The cash flow estimation is premised on the understanding that the Project will be implemented in accordance with the timeline stipulated in the Contract. In the event of Project slippage as mentioned above, the Government will reflect the impact of the delay on the cash flow of the Project in its 2023-24 revised estimate. As the Contract is a fixed price contract, no additional public funds will be required.

**Financial Services Branch**  
**Financial Services and the Treasury Bureau**  
**March 2023**

**Mandatory Provident Fund Schemes Authority**  
**Estimates of Income and Expenditure for FY2023-24**

HK\$ million	FY2022-23	FY2022-	FY2023-24	Increase / (decrease)		Increase / (decrease)		Reference to Explanatory Notes
	Approved Budget	23 Revised Estimates	Proposed Budget	from FY2022-23 Revised Estimates	%	from FY2022-23 Approved Budget	%	
	(a)	(b)	(c)	(d) = (c) - (b)	%	(e) = (c) - (a)	%	
<b>INCOME</b>								
Annual Registration Fee	367.90	338.39	<b>300.96</b>	<b>-37.43</b>	<b>(11.1%)</b>	<b>-66.94</b>	<b>(18.2%)</b>	1
Other Fees and Charges	20.41	36.29	<b>20.16</b>	<b>-16.13</b>	<b>(44.4%)</b>	<b>-0.25</b>	<b>(1.2%)</b>	2
Recoveries from MPF Compensation Fund	1.20	1.20	<b>1.20</b>	-	0.0%	-	0.0%	3
Income Recharged from eMPF Company	13.89	13.77	<b>20.82</b>	7.05	51.2%	6.93	49.9%	4
Interest Income on Bank Deposits	3.00	17.14	<b>41.08</b>	23.94	139.7%	38.08	1,269.3%	5
Investment Income	36.41	<b>-138.19</b>	<b>55.85</b>	194.04	140.4%	19.44	53.4%	6
<b>TOTAL INCOME</b>	<b>442.81</b>	<b>268.60</b>	<b>440.07</b>	<b>171.47</b>	<b>63.8%</b>	<b>-2.74</b>	<b>(0.6%)</b>	
<b>OPERATING EXPENDITURE</b>								
Personal Emoluments	376.67	367.79	<b>414.96</b>	47.17	12.8%	38.29	10.2%	7
Hire of Services	7.23	6.84	<b>9.75</b>	2.91	42.5%	2.52	34.9%	8
Office Accommodation Expenses	65.86	65.94	<b>45.15</b>	<b>-20.79</b>	<b>(31.5%)</b>	<b>-20.71</b>	<b>(31.4%)</b>	9
Information System-Related Expenses	14.53	14.70	<b>16.57</b>	1.87	12.7%	2.04	14.0%	10
Public Relation Expenses	6.53	7.39	<b>9.15</b>	1.76	23.8%	2.62	40.1%	11
Member Education and Engagement	14.87	14.33	<b>12.79</b>	<b>-1.54</b>	<b>(10.7%)</b>	<b>-2.08</b>	<b>(14.0%)</b>	12
Legal and Professional Expenses	11.01	11.29	<b>8.75</b>	<b>-2.54</b>	<b>(22.5%)</b>	<b>-2.26</b>	<b>(20.5%)</b>	13
Other Operating Expenses	24.30	24.01	<b>27.61</b>	3.60	15.0%	3.31	13.6%	14
Depreciation and Amortisation	41.83	25.10	<b>52.70</b>	27.60	110.0%	10.87	26.0%	15
One-off Projects	17.12	14.84	<b>10.19</b>	<b>-4.65</b>	<b>(31.3%)</b>	<b>-6.93</b>	<b>(40.5%)</b>	16
<b>TOTAL OPERATING EXPENDITURE</b>	<b>579.95</b>	<b>552.23</b>	<b>607.62</b>	<b>55.39</b>	<b>10.0%</b>	<b>27.67</b>	<b>4.8%</b>	
<b>RESULT FOR THE YEAR</b>	<b>-137.14</b>	<b>-283.63</b>	<b>-167.55</b>	<b>-116.08</b>	<b>(40.9%)</b>	<b>30.41</b>	<b>22.2%</b>	
<b>CAPITAL EXPENDITURE</b>								
Set-up Costs for the Consolidated Office	86.80	86.80	-	<b>-86.80</b>	<b>(100.0%)</b>	<b>-86.80</b>	<b>(100.0%)</b>	
Leasehold Improvement, Office Equipment and Furniture	12.39	12.89	<b>2.45</b>	<b>-10.44</b>	<b>(81.0%)</b>	<b>-9.94</b>	<b>(80.2%)</b>	17
Information System Capital Expenditure	18.60	19.50	<b>17.55</b>	<b>-1.95</b>	<b>(10.0%)</b>	<b>-1.05</b>	<b>(5.6%)</b>	18
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>117.79</b>	<b>119.19</b>	<b>20.00</b>	<b>-99.19</b>	<b>(83.2%)</b>	<b>-97.79</b>	<b>(83.0%)</b>	
<b>TOTAL EXPENDITURE (OPERATING AND CAPITAL EXPENDITURE)</b>	<b>697.74</b>	<b>671.42</b>	<b>627.62</b>	<b>-43.80</b>	<b>(6.5%)</b>	<b>-70.12</b>	<b>(10.0%)</b>	

Balance of Capital Grant Brought Forward (Note)	2,400.62	2,370.74	<b>2,078.27</b>					
Result for the Year	<b>-137.14</b>	<b>-283.63</b>	<b>-167.55</b>					
Budget of One-off Projects Carried Forward	-	<b>-8.84</b>	-					
<b>BALANCE OF CAPITAL GRANT CARRIED FORWARD</b>	<b>2,263.48</b>	<b>2,078.27</b>	<b>1,910.72</b>					

## Note:

The balance of Capital Grant brought forward in the FY2022-23 Approved Budget was a forecast based on the FY2021-22 revised estimates. For the FY2022-23 revised estimates, this balance was updated to reflect the actual balance based on the FY2021-22 audited financial statements.

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## **Explanatory Notes to the Proposed Budget of the Mandatory Provident Fund Schemes Authority for Financial Year 2023-24**

### **INCOME**

**1. ARF (\$300.96 million)**

ARF income from registered MPF schemes are estimated at \$300.96 million<sup>1</sup>, based on 0.03%<sup>2</sup> of NAV of MPF schemes. ARF income from an MPF scheme is recognised by the MPFA as income on a straight-line basis over 12 months subsequent to the end of FY of that scheme (i.e. part of the ARF income of FY2023-24 is determined based on the NAV of MPF schemes at their year-end dates in FY2022-23). Given a highly volatile investment environment in FY2022-23, the NAV of MPF schemes in FY2022-23 is expected to be lower than that in the previous FY and a lower income is thus projected for FY2023-24.

**2. Other Fees and Charges (\$20.16 million)**

The Other Fees and Charges item includes fee income from MPF intermediaries (\$11.21 million), ORSO schemes (\$6.45 million) and financial penalties (\$2.50 million<sup>3</sup>).

**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 Company (\$20.82 million)**

Income recharged from eMPF Company is estimated at \$20.82 million, comprising (i) a provision of \$16.40 million for recovering the personnel costs of providing middle / back office support by the MPFA for the eMPF Company; and (ii) a provision of \$4.42 million for recovering the cost of operating expenditure incurred.

**5. Interest Income on Bank Deposits (\$41.08 million)**

Interest income on bank deposits is estimated at \$41.08 million, based on the assumptions of Hong Kong dollar interest rate of 4.50%.

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<sup>1</sup> NAV is expected to grow at an annual compound growth rate of 5.9% in the next ten years.

<sup>2</sup> With effect from 1 October 2020, MPF trustees should pay the ARF to the MPFA at a rate of 0.03% p.a. on the respective MPF schemes' NAV for the first six years.

<sup>3</sup> The projection on financial penalties made under the income forecast for FY2023-24 is based on a past 5-year average, excluding any anomalies in order to smooth out the projection.



6. **Investment Income (\$55.85 million)**

With an expected return of 5.77% for FY2023-24 based on the advice of the external fund manager, investment income<sup>4</sup> from the externally managed portfolio is estimated to be \$55.85 million, which is \$194.04 million (+140.4%) higher than the revised estimates for FY2022-23.

## **OPERATING EXPENDITURE**

7. **Personal Emoluments (\$414.96 million)**

As compared with the provision of \$367.79 million for the revised estimates for FY2022-23, there is an increase of \$47.17 million. The increase is mainly due to (i) an increase in regular positions from 581 to 590<sup>5</sup>; (ii) a general provision for annual salary increment of \$10.97 million<sup>6</sup>; (iii) the additional provision of \$14.71 million for implementing a revised pay structure with effect from 1 April 2023 and slightly raising the budget provision of performance-linked variable pay for staff below executive directorate level from 10% to 12% of salary cost for the sake of enhancing MPFA's capability in talent retention. With the total PE estimates at \$422.95 million (including non-regular positions in One-off Projects amounting to \$7.99 million), its percentage over the total operating expenditure will be 69.6% for FY2023-24, which remains at a similar level as in FY2022-23 (69.1% according to the revised estimates).

8. **Hire of Services (\$9.75 million)**

The provision is mainly for paying contractors for outsourced services (including IT Helpdesk, system support, office assistants/support personnel, technicians and labour services for office removal), plus some provision for interns and MPF ambassadors.

9. **Office Accommodation Expenses (\$45.15 million)**

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

10. **Information System-Related Expenses (\$16.57 million)**

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

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<sup>4</sup> It is estimated on a mark-to-market basis and includes projected investment gain on equities.

<sup>5</sup> The regular positions of 590 are assumed to be filled up in FY2023-24, as opposed to the relatively high vacancy rate in FY2022-23.

<sup>6</sup> The provision is for effecting annual salary adjustment to eligible staff of MPFA, with a range of 3.7% to 4.8%, with effect from 1 April 2023 as approved by MPFA Management Board (MB) after taking into account various factors including an average salary adjustment of 3.7% forecast for 2023 in the market based on market trend data collected from consulting firms, inflation rate, individual staff performance, etc..

communication line charges.

**11. Public Relation Expenses (\$9.15 million)**

The provision is mainly for ongoing 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 and the shared costs on maintenance of the website for the Centre for Green and Sustainable Finance.

**12. Member Education and Engagement (\$12.79 million)**

The provision is mainly for ongoing programmes on MPF messages and education, etc.

**13. Legal and Professional Expenses (\$8.75 million)**

The provision covers professional fee for legal, audit, consultancy services and recruitment agency services.

**14. Other Operating Expenses (\$27.61 million)**

The provision is mainly for -

- a) personnel-related expenses covering programmes for talent development, job-related knowledge, and staff welfare activities;
- b) office expenses covering telephone maintenance and mobile phone charges, postage and courier services, and office supplies;
- c) travelling and transport expenses;
- d) fixed assets-related expenses covering acquisition of low-value IT equipment and software, repairing and maintenance of office equipment and furniture, and insurance for fixed assets;
- e) investment expenses and general bank charges for bank services; and
- f) regulatory and supervision expenses covering investigation and litigation-related expenses in respect of tracing default MPF contributions.

**15. Depreciation and Amortisation (\$52.70 million)**

Depreciation and amortisation 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 (\$10.19 million)**

The provision is mainly for -

- a) publicity programmes for special cohorts to sustain the momentum of publicity to self-employed persons, ethnic minorities and new arrivals;
- b) supporting Government's Anti-epidemic Fund for countering the

- impact of the COVID-19 pandemic on the Hong Kong economy through the provision of temporary positions which is a cross-year project, with subsequent reimbursement of expenditure from the Government;
- c) seeking external legal advice on handling a complex case, which is referred from a frontline regulator after its investigation involving an MPF principal intermediary on case merits, any representation received or issues arising from the disciplinary process as well as possible appeal;
  - d) engaging a training institution to provide training for the MPF intermediaries on professional conduct and on the features of the eMPF Platform; and
  - e) costs for project personnel (for 15 project posts) in FY2023-24 for supporting various projects across Divisions/Departments.

## **CAPITAL EXPENDITURE STATEMENT**

### **17. Leasehold Improvement, Office Equipment and Furniture (\$2.45 million)**

The provision is mainly contingent in nature for the general office improvement work and general replacement of office equipment.

### **18. Information System (\$17.55 million)**

The provision is mainly for various system application enhancement and development projects, and for replacement of obsolete servers, personal computers and notebook computers.

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## Mandatory Provident Fund Schemes Authority

### Estimated Annual Registration Fee (ARF) Income

#### Statutory Requirement - section 22B of MPFSO

- (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) The total amount of costs in FY2023-24 which are not eligible for ARF recovery is estimated to be \$113.64M, including:
- a) ORSO-related cost (\$80.41M);
  - b) the cost of operating MPF intermediaries functions already recovered by the intermediaries fees (\$11.21M);
  - c) cost recovered from eMPF Company (\$20.82M); and
  - d) cost recovered from MPF Compensation Fund (\$1.20M).

<i>HK\$ million</i>	FY2022-23 Revised Estimates	FY2023-24 Proposed Budget
ARF Income (a)	338.39	300.96
ARF Eligible Cost (b)	452.32	493.98
<b>Under (c) = (a) - (b)</b>	<b>-113.93</b>	<b>-193.02</b>

Total Operating Expenditure (Annex I)	552.23	607.62
Less : Items not eligible for ARF recovery	-99.91	-113.64
ORSO related cost	-73.64	-80.41
Cost recovered by the intermediaries fees	-11.30	-11.21
Cost recovered from eMPF Company	-13.77	-20.82
Cost recovered from MPF Compensation Fund	-1.20	-1.20
ARF Eligible Cost	452.32	493.98