

**For discussion on
16 May 2023**

Legislative Council Panel on Manpower

**Supporting Measures for the Abolition of the Offsetting Arrangement
under the Mandatory Provident Fund System**

Introduction

The Government is preparing for the implementation of the abolition of using the accrued benefits of employers' mandatory contributions under the Mandatory Provident Fund (MPF) System to offset the severance payment (SP) and long service payment (LSP) (offsetting arrangement). This paper reports the progress of the supporting measures for the abolition of the offsetting arrangement, and consults Members on the proposal for developing an information technology (IT) system for the Government Subsidy Scheme (GSS) (GSS System).

Background

2. The Legislative Council (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 announced that the abolition of offsetting arrangement will take effect on 1 May 2025.

3. The Government is carrying out extensive publicity to help employers and employees understand the abolition of the offsetting arrangement, including conducting briefings to employer associations, labour unions and human resources practitioners to explain the abolition of the offsetting arrangement; publishing posts on social media; placing feature articles and advertorials in major local newspapers and news applications; and launching a thematic website with a calculating tool, etc. Moreover, the Government will implement the 25-year GSS to share out the SP/LSP expenses of employers after the abolition. The

refined GSS was announced in the Chief Executive’s Policy Address Supplement published in October 2021, which increases the subsidy in the initial years after the abolition so as to provide more targeted assistance to micro, small and medium-sized enterprises (MSMEs)¹. Under the refined scheme, 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 (see [Annex 1](#)). The Government’s financial commitment for GSS is estimated at \$33.2 billion (in 2021 prices).

4. An employer, after settling the SP/LSP to his/her employees in accordance with the Employment Ordinance², can apply for subsidy from GSS. Labour Department (LD) will aim to disburse the subsidy in a simple, convenient and expeditious way when formulating the operational details such as application and vetting procedures. We suggest 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, and handling related enquiries, etc.; and plan to seek funding approval from LegCo for the total financial commitment of GSS and the relevant expenditure.

5. Apart from disbursing subsidies to employers, if the entitlement received by 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 regime³, they can apply to LD for disbursing the shortfall. They can

¹ The Government briefed the LegCo Panel on Manpower on the refined GSS on 19 October 2021.

² Employers are required by the Employment Ordinance to settle their LSP liabilities within seven days of dismissal. An employee who wishes to claim for SP should serve a written notice to the employer within three months after the dismissal/lay off 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.

³ 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 much 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

compare the amounts of entitlement before and after the abolition of the offsetting arrangement using the calculating tool on the online portal. After receipt of SP/LSP from their employers, these employees can apply to LD for making up the shortfall. It is our plan that employers and employees may browse related information and submit application via the same portal.

Government Subsidy Scheme System

Justifications

6. We propose for LD to develop, maintain and support GSS System to ensure that the system complies with the operation requirements and is able to receive applications timely.

7. GSS System includes a one-stop online portal and a back-end administration system. Its major functions and component parts include –

- (a) providing one-stop service to employers applying for subsidy, including account registration, preliminary calculation of subsidy amount, submission of applications⁴ and upload of related supporting documents (e.g. company registration proof, salary, SP/LSP amount of the employee leaving employment and payment proof), enquiring application progress, receiving notifications on disbursement of subsidy, reviewing subsidy payment history and printing 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 calculation and verification of subsidy amount, approving applications and handling

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.

⁴ Employers may also choose to submit applications in other ways such as by email, fax, post or in person.

applications for review of disbursement results, etc., to enhance the accuracy and efficiency in processing applications;

- (c) disbursing subsidies through banks;
- (d) monitoring progress of case processing 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 analysis 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.

8. LD will oversee the implementation of GSS System, including the maintenance.

Expected Benefits

9. 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 and make enquiry via the one-stop online portal. Moreover,

the portal will also provide an electronic publicity channel for explaining the essential features of GSS including eligibility for application and arrangements for subsidy disbursement, etc.;

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

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

(c) processing cases reliably, accurately and effectively

GSS System will be hosted in the Government Cloud Infrastructure Services, which is a secure and trustworthy environment to enhance system reliability. Employers' application details, documents and subsidy disbursement records will be kept in 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, thus reducing human errors and the lead time required for processing;

(d) effective monitoring of GSS operation

The database of GSS System will assist in identifying duplicate applications and applications requiring further follow-up more effectively and speedily, thus ensuring that applications comply with the relevant rules. The case management and statistical report compilation functions of the system will assist in monitoring case

processing; and

(e) **enhancing environmental efficiency**

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

Financial Implications

Non-recurrent expenditure

10. In 2023-24 to 2025-26, development of GSS System will incur an estimated non-recurrent expenditure of \$41.4 million, which includes the cost for acquisition and installation of computer hardware, software and packages, rental of data communication lines and cloud infrastructure services, engagement of contract staff to support Government staff for system development work, carrying out office site preparation, privacy impact assessment, and security risk assessment and audit, etc. The relevant breakdown is at **Annex 2**.

11. 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 and procurement, etc. This will entail a non-recurrent staff cost of \$19.02 million from 2023-24 to 2025-26.

Recurrent expenditure

12. During the system development period, the estimated recurrent expenditure for maintaining and supporting the 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 \$9.66 million per annum, including the cost for hardware and software maintenance, rental of data communication lines, cloud infrastructure services and engagement of contract staff. The breakdown is at **Annex 3**.

13. 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

14. 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 GSS System is not implemented, including the costs of additional manpower for cases processing, verification and preparation of statistics; paper, printing and postal costs; and cost of renting larger accommodation for the additional manpower.

Implementation Plan

15. Subject to the support of Members, we plan to seek funding approval from the Finance Committee (FC) of LegCo in June 2023. Subject to the approval from FC, the proposed schedule for implementing GSS System is as follows –

Activity	Target commencement/ completion date
(a) Project commencement	3 rd quarter of 2023
<ul style="list-style-type: none"> • formulation of project management plan • engagement of contract staff 	

- | | |
|--------------------------------------|---|
| (b) System development | 4 th quarter of 2023 to April 2025 |
| • system analysis and design | |
| • system development and testing | |
| • user acceptance tests | |
| (c) Starting to receive applications | 1 May 2025 |

Designated Savings Account Scheme

16. To assist employers to meet SP/LSP expenses after the abolition of the offsetting, the Government had proposed to implement the Designated Savings Account (DSA) Scheme. Mandating hundreds of thousands of employers to make contributions on a monthly basis, the Scheme is a complex and colossal system involving drafting a new piece of legislation and complicated implementation arrangements. The community had expressed different views on the DSA Scheme during the scrutiny of the Bill for abolishing the offsetting arrangement by LegCo last year. Their concerns included that the local economy had not yet recovered from the pandemic and that capital has been tight; that cash flow would directly affect enterprises' operation and their ability to grasp development opportunities. Employers' associations were concerned that mandatory contributions would aggravate the burden on enterprises and they preferred to retain the capital for free deployment. MSMEs were particularly concerned about whether the accumulated balance in their DSAs would be sufficient to meet SP/LSP expenses after contributions were made. Moreover, since the Government would recoup from employers the daily operating expenses of the Scheme from the sixth year of its operation onwards, employers were also concerned about the Scheme's administration expenses.

17. We appreciate the community's concern over the DSA Scheme. The economy is currently recovering from the pandemic. The interest rate level is also different from the time when the Scheme was first proposed. Having considered that the DSA Scheme is only a supporting measure for the abolition of

the offsetting arrangement and will not affect the Government's implementation of the abolition on 1 May 2025, we have commissioned a consultant to conduct a careful study and review on the Scheme's cost-effectiveness by using the latest statistics. We will announce the way forward for the DSA Scheme after finalisation.

Advice Sought

18. Members are invited to give views on the content of this paper.

Labour and Welfare Bureau
Labour Department
May 2023

**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%

**Non-recurrent Expenditure of the
Proposed Government Subsidy Scheme System**

Item	2023-24	2024-25	2025-26	Total
	\$'000	\$'000	\$'000	\$'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 (10%)	1,323	1,609	831	3,763
Total	14,552	17,698	9,145	41,395

Note:

1. For item (a), 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.
2. For item (b), the estimated expenditure of \$2,382,000 is for the acquisition of system software.
3. For item (c), the estimated expenditure of \$1,479,000 is for the rental of data communication lines connecting to the Government Cloud Infrastructure Services.
4. For item (d), the estimated expenditure of \$2,100,000 is for the charge of hosting the system in the Government Cloud Infrastructure Services.

5. For item (e), the estimated expenditure of \$2,920,000 is for engaging service providers for implementation services, including system packages subscription, installation and integration.
6. For item (f), the estimated expenditure of \$25,646,000 is for engagement of contract staff to support Government staff for the system implementation work, including system analysis and design, development, site preparation and system installation, etc.
7. For item (g), the estimated expenditure of \$520,000 is for site preparation in respect of cabling work for server rooms and office area.
8. For item (h), the estimated expenditure of \$35,000 is for providing training for staff.
9. For item (i), the estimated expenditure of \$600,000 is for engaging services for privacy impact assessment, security risk assessment and audit in various implementation stages.
10. For item (j), the estimated expenditure of \$3,763,000 is the contingency cost, representing 10% of the cost set out in items (a) to (i).

**Recurrent Expenditure of the
Proposed Government Subsidy Scheme System**

Item	2024-25	2025-26	2026-27	2027-28	2028-29 and onwards
	\$'000	\$'000	\$'000	\$'000	\$'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

Note:

1. For item (a), the estimated annual expenditure of \$439,000 is for hardware and software maintenance to sustain the system.
2. For item (b), the estimated annual expenditure of \$665,000 from 2026-27 onwards is for rental of data communication lines.
3. For item (c), the estimated annual expenditure of \$1,300,000 from 2026-27 onwards is for the charge of hosting the system in the Government Cloud Infrastructure Services.
4. For item (d), the estimated annual expenditure of \$7,257,000 from 2026-27 onwards is for the fees paid to service providers and contract staff for system maintenance and support.