

LegCo Panel on Education

Education Expenditure in the Draft Estimates for 2003-04

Introduction

This paper informs Members of the education expenditure in the draft Estimates for 2003-04, and possible measures to achieve 1.8% efficiency savings without compromising the policy objectives in education.

Education Expenditure

2. Education remains the largest policy area by percentage share of Government expenditure in the Budget announced by the Financial Secretary on 5 March. For the 2003-04 financial year, total expenditure on education is estimated to be \$61 billion, accounting for 23.8% of total government expenditure. This represents an increase of 11.2% in nominal terms compared with the revised estimate for 2002-03. Of the \$61 billion, \$49.3 billion is for recurrent expenditure, with an increase of 4.2% in nominal terms over the revised estimate for 2002-03. About 68% of the total spending on education goes to basic education.

3. A breakdown of the total provision for education in the draft Estimates for 2003-04 is as follows:

	Rev Est (\$m)	Draft Est (\$m)	Increase (%) (\$m)
Recurrent	47,275	49,260	1,985 (4.2%)
Capital	7,615	11,765	4,150 (54.5%)
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Total	54,890	61,025	6,135 (11.2%)
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4. To contain growth in public expenditure, all bureaux and departments were asked to reduce operating expenditure requirements by 1.8%

of the original projected expenditure for 2003-04 when preparing the draft Estimates. The provision in the draft Estimates for expenditure heads under the education policy area therefore represents the net increase in expenditure after taking into account the 1.8% cut. In monetary terms, 1.8% savings represent \$ 906million.

Major Areas of Growth

5. Some of the major items accounting for the increase in expenditure in 2003-04 include –

(a) ***Matching Grant for universities***

The Financial Secretary has made provision for a matching fund of \$1 billion to encourage private donations for universities.

(b) ***Additional resources to support the curriculum reform***

In the 2002/03 school year, we started to provide an additional graduate post in each public sector primary school for five years to help implement the curriculum reform. The initiative is to be implemented over a period of three years.

(c) ***Native English-Speaking Teacher (NET) Scheme for primary schools***

In 2002/03, we extended the NET Scheme to primary schools by providing one NET for every two schools. Additional resources have been provided for full implementation of the scheme in 2003-04.

(d) ***Increase in student financial assistance provision***

We expect a substantial increase in the caseload - of student financial assistance due to expansion of senior secondary and post-secondary education.

(e) ***Increase in provision for capital projects to implement various initiatives such as whole-day primary schooling***

We estimate an increase in cashflow for 2003-04 relating to various committed projects, including whole-day primary schooling, the school improvement programme, and major repairs works.

(f) ***Additional resources for Senior Secondary education***

Starting from 2002/03, we provide adequate subsidised S4 and training places for all S3 students in publicly-funded schools who have the ability and wish to continue their study.

6. Apart from the above initiatives, we also make provision for year-on-year increase in recurrent requirements under normal circumstances to meet growth in on-going commitments and activities such as recurrent consequences of school improvement and capital projects, full-year effects of initiatives launched in phases, as well as salary increments for staff etc. This explains why there is still a real growth in expenditure despite the 1.8% cut in 2003-04.

Efficiency Savings

7. In identifying savings to achieve the 1.8% target, we have refrained from holding back initiatives which may slow down the education reform or affect the quality of education. The 1.8% savings, or \$906 million, already deducted from the draft Estimates, have been assumed to come from the following sources:

<u>\$m</u>	<u>Remarks</u>
180	Reduction in the provision for additional classes due to declining population and stabilization in the number of newly arrived children from the Mainland
100	10% reduction in EMB's general departmental expenses and savings from EMB/ED merger
29	10% reduction in general departmental expenses of UGC/VTC/ SFAA
35	Reduced expenditure for Mortgage Interest Subsidy Scheme due to falling interest rate
12	Subsume non-formal adult education into the Continuing Education Fund
250	Surrendering of contingency provision to cover unforeseen/uncontrollable expenditure, such as cost of annual increments, pre-retirement leave of officers (0.5% of education envelope)
300	Surrendering of operational reserve to cover new initiatives for which policy approval has yet to be obtained, e.g. action plan for improving language proficiency, reform of public examinations and student assessment, mentorship and internship schemes for new teachers etc.
----- \$906m -----	Total

8. Since last autumn we have been engaged in a dialogue with the education sector, including the school councils, to identify possible savings in education spending. There is agreement that resources should be spent in areas where the biggest impact can be made, and resources should be withdrawn from where the cost-efficiency is low. The guiding principles are to safeguard the interests of students as the foremost consideration, and to minimize any adverse impact on the on-going education reform.

9. We appreciate that it will take time to rationalise the allocation of resources and to work out a programme with affected parties where withdrawal or reduction of funding is involved. As an interim arrangement, EMB has given up the operational reserves, while details on other savings measures are being worked out. We must, however, build up a reserve in the course of the year to provide for unforeseen circumstances and uncontrollable expenses as explained in paragraph 7 above, as well as to meet the costs of new initiatives for furthering the education reform.

Other savings measures

10. Other savings measures that are being explored include the following:

- (a) Hiving off EMB's non-core activities (e.g. adult education), and cease to perform non-essential functions (e.g. regulation of tutorial schools);
- (b) Reduction in EMB's headcount by up to 10% through natural attrition and voluntary retirement, and re-engineer work processes to enhance efficiency and reduce manpower requirement;
- (c) Close down high-cost and ineffective schools;
- (d) Tighten up the criteria for reimbursement of rent and rates;
- (e) Review the continued justification for job-related allowances;
- (f) Review the subvention for the English Schools Foundation;
- (g) Rationalisation of non-salary recurrent grants, including the CEG, OEBG, subject grants etc;
- (h) Review the usefulness of the Mortgage Interest Subsidy Scheme;
- (i) Review the level of funding for ETV, EduCity, parent education etc and explore opportunities for community contribution to these activities.

11. We have imposed a 1.8% savings target on other vote controllers within EMB's ambit of responsibility, namely, the VTC and SFAA in 2003-04. There are longer-term plans to revamp the VTC with a view to improving their cost-effectiveness. We expect to reach agreement on the future development of the VTC within a year.

12. As regards UGC, we have maintained the approved provision for 2003-04 which is the final year in the current triennium. For the rollover year 2004-05, we expect a 10% reduction in UGC's block grant. UGC will apportion the reduction among institutions based on their academic development programmes and financial position. With one year of advance notice, and with the establishment of the \$1 billion matching fund, we are confident that institutions will be able to cope by adjusting their academic and resource plans and stepping up fund-raising efforts.

Way Forward

13. The Financial Secretary has set a target to reduce total government operating expenditure from \$220 billion, as originally estimated, to \$200 billion by 2006-07. He envisages that this would entail a reduction of 9% or more in the operating expenditure of individual bureaux/departments. We estimate that a 1% savings for education is equivalent to about \$550 million. While efforts will be made to achieve all possible savings through the 3Rs (re-prioritisation, re-organisation, and re-engineering) within EMB, schools and subvented organizations must also share the responsibility. The search for efficiency savings and more cost-effective use of resources will be an on-going process over the next four years.

14. As discussed above, part of the savings we have achieved in 2003-04 is through redeployment of resources we have reserved in the envelope for essential initiatives. Planning ahead, we must implement some of the savings measures in paragraph 10 above from the 2003/04 school year, in order to deliver additional savings to fund the new initiatives and to meet the savings targets in the following financial years which the Financial Secretary has yet to announce.

Advice sought

15. Members are invited to note the content of this paper and are welcome to comment on it.

Education and Manpower Bureau
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