

ITEM FOR FINANCE COMMITTEE

HEAD 156 GOVERNMENT SECRETARIAT :
EDUCATION AND MANPOWER BUREAU
Subhead 000 Operational expenses

Members are invited to approve –

- (a) the revision to the remuneration package for teachers under the Native-speaking English Teacher Scheme; and
- (b) the delegation of authority to the Secretary for Education and Manpower to approve future revisions to the special allowance for teachers under the Scheme.

PROBLEM

The existing remuneration package for the Native-speaking English Teacher (NET) Scheme needs to be enhanced for attracting and retaining quality teachers to serve in Hong Kong in the light of the high attrition rates registered in recent years.

PROPOSAL

2. The Secretary for Education and Manpower (SEM) proposes to revise the remuneration package for teachers under the NET scheme with effect from the 2005/06 school year (i.e. from 1 September 2005 or the contract start date of the NETs entering into contracts for serving in the 2005/06 school year, whichever is earlier), as follows –

- (a) introducing a new cash retention incentive for NETs who have satisfactorily completed two or more years of continuous service in Hong Kong; and

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(b) revising the rate of special allowance to \$12,950 per month.

3. We also propose the delegation of authority to SEM to approve future revisions to the special allowance for teachers under the Scheme when necessary.

JUSTIFICATION

4. The attrition rates of NETs have been trending high in recent years and are significantly above the 20% originally envisaged when the Scheme was first designed in 1998. The rate of non-renewal of contracts (which normally last two school years) as a percentage of contracts which are due for renewal in the respective school years are set out below –

School year	NETs in primary schools	NETs in secondary schools
2002/03	Not applicable ¹	48%
2003/04	39%	44%
2004/05	46%	54%

5. To identify the factors for the high attrition rates of NETs, the Education and Manpower Bureau (EMB) conducted a survey amongst all NETs in July 2005. The survey shows that the primary reasons for NETs choosing to renew their contracts are job satisfaction, followed by attractiveness of the remuneration package and good working and support conditions in schools. The primary reasons for NETs choosing not to renew their contracts are the remuneration package not being attractive enough, followed by insufficient job satisfaction, pursuit of other professional opportunities and lack of support from schools. In other words, attractiveness of the remuneration package and job satisfaction are the two major factors affecting whether a NET will continue to serve in the Scheme or not.

/Retention

¹ The NET scheme was extended to public sector primary schools in the 2002/03 school year.

Retention problem

6. In the last few years, EMB managed to recruit a steady flow of new NETs to Hong Kong despite many difficult external conditions, including pay cuts, depreciation of the US dollar (and hence Hong Kong dollar) against the currencies of many of the NETs' home countries, more restriction on outflow of teachers in some countries (e.g. shortened no-pay leave for NETs coming to work in Hong Kong while retaining their teaching positions in their home countries), and restrained working opportunities for the spouse of NETs in Hong Kong. In absolute terms, the remuneration package may still retain a competitive edge, taking into account the low taxation in Hong Kong, but the attractiveness has diminished. Moreover, under the current NET Scheme, there is no promotion prospect for NETs however long they have served in Hong Kong. It is natural that, despite the annual increments in salary, the marginal attractiveness of the remuneration package will diminish as NETs accumulate working experience.

7. The trend data of the NET scheme for secondary schools (see table below) shows that NETs with up to two years of experience (i.e. those who are about to enter into a second contract) or those with two to four years of experience (i.e. those who are about to enter into a third contract) are the categories losing the most numbers of NETs. This pattern is not educationally desirable, because frequent changes of the NET every two years or so will lead to disruption in the operation and planning of English teaching in schools. Upon the arrival of a fresh NET in Hong Kong, the first school year may be the hardest time for both the NET and the school to accommodate each other. Once the NET and the local teachers in a school can work well with each other from the second year onwards, it will be a great loss if such hard-earned experience drains away when the NET decides to leave at the end of the second year or the fourth year.

Breakdown of attrition rate in the 2004/05 school years

Years of serving in HK	Those whose contracts are due for renewal (A)	Those not renewing (B)	Attrition rate (%) (B)/(A)
Up to 2 years	62	34 (41%)	55%
2 to 4 years	46	22 (27%)	48%
4 to 6 years	32	17 (20%)	53%
Over 6 years	14	10 (12%)	71%
Total	154	83 (100%)	54%

8. To encourage NETs with two or more years of experience (i.e. after their first or second contract) to stay on, we propose to introduce a two-stage cash retention incentive for longer service as follows –

- (a) for the first two years of service (i.e. typically the first contract) – the remuneration package shall remain unchanged;
- (b) for the satisfactory completion of the third and fourth years of service (i.e. typically the second contract) – a retention incentive at 5% of current base salary should be provided to NETs on top of their current base salary, payable on a monthly basis in advance over the period of the third and fourth years of service; and
- (c) from the satisfactory completion of the fifth year of service onwards (i.e. typically from the third contract onwards) – a retention incentive at 10% of current base salary should be provided to NETs on top their current base salary, payable on a monthly basis in advance over the fifth year of service onwards.

The retention incentive will not attract contract gratuity. The gratuity payable for the NET contract will remain the sum which, when added to the employer's contribution to the Mandatory Provident Fund Scheme, equals 15% of the total current base salary drawn during the period of the contract.

9. We propose to link the retention incentive to the current base salary of the NET (excluding any allowance), instead of providing a flat rate, so that the qualifications and experiences of the NETs will be taken into account automatically when calculating the retention incentive. As an illustration, based on an average base salary of \$30,000 per month for NETs in primary schools and \$36,000 per month for NETs in secondary schools, the retention incentive of 5% amounts to about \$1,500 and \$1,800 per month, and the retention incentive of 10% amounts to about \$3,000 and \$3,600 for NETs in primary and secondary schools respectively. We have not proposed further increase in the rate of retention incentive from the fourth contract onwards because for NETs who choose to leave the Scheme upon completion of six years of service (i.e. after the third contract), they are more likely to have other personal or career planning considerations, and would be less likely to be swayed even if more financial incentives would be provided.

10. We propose that the payment of retention incentive should be subject to the following conditions –

- (a) the retention incentive will only apply to NETs who have completed a minimum of two years of continuous service;

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- (b) the eligibility of a NET for the retention incentive will be subject to annual review based on the school management's satisfaction with the performance of the NET, as reflected in the annual performance appraisal, and the willingness of the school to retain the service of the NET throughout the remaining contract period; and
- (c) the eligibility of a NET for the retention incentive will be forfeited upon resolution or termination of contract before its natural expiry, except where a NET is transferred to another school for good reasons (such as due to closure of school or recommendation by the school management and EMB). Where premature resolution or termination of contract is initiated by the NET, the retention incentive paid in advance for the months prior to the serving of notice in that school year will be clawed back.

The Permanent Secretary for Education and Manpower may approve variations to these conditions for individual cases under exceptional circumstances.

11. The retention incentive will be applicable to NETs who are serving in the 2005/06 school year and who already have more than two years of continuous experience teaching in Hong Kong. We hope that the retention incentive can help reduce the attrition rate of experienced NETs. We will review the effectiveness of the retention incentive in retaining quality NETs on a yearly basis in the light of the recruitment and attrition situations.

Revising Special Allowance rate

12. The special allowance aims to assist NETs in meeting cost of living (mainly accommodation cost) in Hong Kong. At the time of the introduction of the NET scheme in the 1998/99 school year, the special allowance was set at a fixed rate of \$13,000 per month for NETs whose normal place of residence was outside Hong Kong. To reflect changes in the cost of living over time, we introduced a mechanism in 2003 to adjust the rate of special allowance according to the movement of the private rental component of the Composite Consumer Price Index and, as a result, the special allowance was reduced to \$10,500 per month from the 2004/05 school year onwards. There was discontent amongst NETs in the 2004/05 school year over the downward adjustment. The discontent was compounded by the pay cut in 2005 when more NETs have their contracts due for renewal in the 2005/06 school year.

13. The survey conducted by EMB shows that less than 70% of NETs are paying rent within the present rate of special allowance of \$10,500 per month. Moreover, 54% of NETs reported that they experienced increase in rent when renewing their tenancy at the time when they renew their NET contract. In most cases, such increase is about 6% to 10%.

14. The rental payments of NETs are highly sensitive to personal choice of quality, location and other characteristics of accommodation, and it is not reasonable to expect the special allowance can cover the full accommodation aspirations for all NETs. Nevertheless, the argument that NETs do not have full access to local rental market carries some truth and the lower-middle range of accommodation may not be entirely open for NETs to consider.

15. The above survey also shows that about 51% of NETs come alone to work in Hong Kong, and the remainder with families. For those with families, 43% are with dependent children in Hong Kong, and 41% indicate that their spouses are not working. This means a good number of NETs are taking the special allowance as an alternative source of income for their accompanying spouse and for meeting education cost of accompanying children. Another confounding variable is the change in work visa requirements for the accompanying spouses of expatriates (i.e. accompanying spouses are no longer provided with work visa automatically but have to apply on individual case basis), making it more stringent for them to seek local employment. That said, we do not consider it justified or desirable to provide differential rate of special allowance for single NETs versus NETs with spouse and/or children because we aim to remunerate the professional service delivered by the NETs, rather than their personal circumstances and family situations.

16. We have considered a number of options to revise the special allowance, taking into account the practical difficulties faced by the NET community. We note that the NETs play a useful role in enhancing English teaching practices, and that we are competing for quality NETs on an international basis. We note the result of a poll conducted by NETs amongst themselves in September 2005, which indicated that some 65% (out of 326 NET respondents to the poll) preferred to have the rate of special allowance set at minimal level of \$13,000, and the NETs also accepted a fixed rate which they considered more or less adequate, without adjustments from year to year.

17. We propose to revise the special allowance from \$10,500 to \$12,950 per month, with reference to the prevailing fresh-letting rental prices². In order to have the earliest retention effect on NETs already serving in Hong Kong, we propose to apply the new rate of special allowance to NETs already serving in the 2005/06 school year.

18. Taking into consideration the NETs' overwhelming preference for more certainty, we shall monitor rental movements in conjunction with the attrition rates, and adjust the special allowance when that situation has changed significantly, say when the fresh-letting rental prices change by 10% or more. We propose that SEM should be delegated the authority to revise the special allowance, where necessary, taking into account the rental expenditure pattern, the type and location of accommodation of typical NETs, average fresh-letting rental prices, the attrition rate and the affordability of the Government.

19. We have also reviewed the adequacy of other components of the remuneration package for NETs and do not find it necessary to make any change at this stage.

FINANCIAL IMPLICATIONS

20. Subject to Members' approval of the proposal in paragraph 2 above, the introduction of the retention incentive to some 450 eligible NETs (out of a total of about 800 serving NETs) with retrospective effect from the beginning of the 2005/06 school year (i.e. from 1 September 2005 or the contract start date of the NETs entering into contracts for serving in the 2005/06 school year, whichever is earlier) up to the end of November 2005 will incur an expenditure of about \$3.4 million. The increase in the special allowance for some 800 NETs (from \$10,500 to \$12,950 per month) with retrospective effect from the beginning of the 2005/06 school year up to the end of November 2005 will incur an expenditure of about \$5.9 million.

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² When determining the rate of special allowance, we have made reference to –

- (a) a typical accommodation at a size of 70m², which shall be about reasonable taking into account the family profile of NETs in the context of Hong Kong; and
- (b) the relevant territory-wide average fresh-letting rental prices from January to July 2005 from the "Private Domestic – average rents by Class" surveyed by the Rating and Valuation Department, which is about \$185 per m².

The resulting figure is about \$12,950 (= \$185/m² x 70m²)

21. Based on the current profile of about 800 serving NETs, the additional expenditure arising from the introduction of the retention incentive is about \$7.9 million in 2005-06 (inclusive of the retrospective payment in paragraph 20 above) or about \$13.5 million per annum in a full year. The additional expenditure arising from the increase in the special allowance is about \$13.8 million in 2005-06 (inclusive of the retrospective payment in paragraph 20 above) or about \$23.6 million per annum in a full year.

22. Since EMB plans to increase the number of NETs in primary schools by about 200 in the coming school years, the total additional expenditure for providing the retention incentive to about 1 000 NETs will be about \$16.8 million per annum (assuming the current profile to hold) to \$30 million per annum (assuming all NETs stay long enough to receive the higher rate of retention incentive at 10% of their current base salary) in the longer run. Meanwhile, the total additional expenditure for increasing the special allowance to about 1 000 NETs will be about \$29.4 million per annum.

23. We have earmarked sufficient funds in the approved Estimates for 2005-06 and will cater for the funding needs in the draft Estimates of subsequent financial years.

BACKGROUND INFORMATION

24. In 1987, we introduced expatriate English language teachers on a small scale to local secondary schools to strengthen English learning and teaching. On 21 November 1997, the Finance Committee accepted vide FCR(97-98)63 the financial implications of introducing the NET scheme with provision of one NET over and above the teacher establishment of each public sector secondary school and approved a remuneration package tailor-made for the NET scheme. The existing remuneration package is detailed in the

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Enclosure.

25. Built on the positive experience of the scheme in secondary schools and after piloting for two school years in primary schools, we extended the scheme to public sector primary schools in the 2002/03 school year on the basis of one NET for every pair of eligible primary schools (each having six or more operating classes). We are in the process of recruiting more NETs to enhance the provision for primary schools to one NET per eligible school. We have also established the Advisory Teaching Team (comprising NETs and local English teachers recruited or seconded to EMB) to provide centralised support to English teaching in primary schools provided with NETs, as well as to foster professional development of English teachers in primary schools with less than six classes. We are planning a central support structure for secondary schools in parallel.

26. In the 2005/06 school year, there are 427 and 376 NETs (recruited through EMB) serving in secondary and primary schools respectively. Of the 376 NETs serving in primary schools, 180 of them are serving in one school (increased from 125 in the 2004/05 school year) while 196 are serving two schools. The total recurrent expenditure amounts to about \$480 million per annum.

27. The EMB embarked on a review of the remuneration package for NETs in mid-2005 and in the process has consulted the NET community through continued dialogue with the NET Association and an EMB survey in July 2005.

28. We consulted the Legislative Council (LegCo) Panel on Education on the proposal at its meeting on 24 October 2005. Members were in general supportive of our proposal to enhance the remuneration package for NETs for attracting and retaining quality NETs to serve in Hong Kong. Members expressed concern about other measures we would take to foster a better working environment for NETs and to raise their job satisfaction that might help reduce attrition. On this, we will report back to the LegCo Panel on Education separately in due course.

Education and Manpower Bureau
November 2005

Existing Remuneration Package for NETs

- (a) Salary Payable monthly, and equivalent to local teachers –
- (a) at Graduate Master/Mistress rank for NETs in secondary schools (i.e., Master Pay Scale point 12 to 33 (currently at \$16,165 to \$43,940 per month)); or
 - (b) at Assistant Primary School Master/Mistress rank for NETs in primary schools (i.e., Master Pay Scale point 12 to 29 (currently at \$16,165 to \$36,575 per month)).
- Starting salary for new recruits to be determined on the basis of individual appointees' qualifications and relevant experiences. Annual increments to be provided upon satisfactory performance. No prospect for promotion to a higher rank.
- (b) Contract gratuity 15% of total current base salary (when added to the employer's contribution to the Mandatory Provident Fund Scheme) paid over the contract period payable on satisfactory completion of each contract.
- (c) Passages* Reimbursement of expenses on one return economy class air ticket from country of origin by the most direct route for each teacher, his/her spouse and each of the accompanying children for each contract.
- (d) Baggage allowance* Reimbursement of travelling and baggage expenses from and to country of origin provided on first appointment, at a rate comparable to that for eligible civil servants.
- (e) Special allowance* A monthly allowance now at \$10,500, which is price-adjusted annually according to movement of the private rental component of the Composite Consumer Price Index.
- (f) Medical allowance* Reimbursement of medical insurance within the contract period, up to HK\$1,400 per year for single teacher and HK\$5,400 per year for married teacher accompanied by spouse and/or children.

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