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## INFORMATION NOTE

### Establishment and monitoring of direct subsidy scheme schools

#### 1. Introduction

1.1 In May 2009, the School Sponsoring Body (SSB) of the Pegasus Philip Wong Kin Hang Christian Primary School cum Junior Secondary School announced its intention of giving up its sponsorship. The school has recently been under the spotlight over alleged managerial and financial problems, such as the school operating on a provisional licence since it was founded in 2001 and not turning in budget reports for the past two years. Against such background, during the meeting of the Panel on Education held on 25 May 2009, members raised concerns regarding the monitoring of direct subsidy scheme (DSS) schools and proposed to further discuss the matter in the Panel meeting to be held in July 2009. In this connection, this information note provides information on the establishment (including registration procedures) and monitoring of DSS schools to facilitate members' discussion on the topic.

#### 2. Background of the direct subsidy scheme

2.1 Introduced in September 1991, DSS was set up in response to the recommendations of the Education Commission in its Report No. 3 and approved by the Executive Council. The Government encourages non-Government secondary schools which have attained a sufficiently high educational standard to join DSS by providing subsidies in order to enhance the quality of private school education. Under DSS, schools are free to decide on their curriculum, fees and entrance requirements. In March 1999, the Executive Council accepted the recommendations of a review of private school policy to allow aided primary schools to join DSS from the 2000-2001 school year onwards. As at September 2008, there were 71 DSS schools (51 operating classes at the secondary level, 11 operating classes at the primary level and nine operating classes at both secondary and primary levels).

2.2 The aim of DSS is to develop a strong private school sector by providing high quality schools other than Government and aided schools so that parents have greater choice in finding suitable schools for their children.

2.3 To ensure the quality of DSS schools, DSS schools are required to sign a Service Agreement with the Government comprising a proposed school plan and indicators for evaluation. Mechanisms are also instituted by the Education Bureau (EDB) to control and monitor the quality of DSS schools.

### **3. Establishment of a new direct subsidy scheme school**

3.1 EDB has set up guidelines on how to establish a new DSS school. Below are some of the highlights.

#### School allocation

3.2 SSBs are required to submit application to the Government for operating Government-built schools. Successful SSB is required to set up an Incorporated Management Committee (IMC) under the *Education Ordinance* or a School Management Committee Limited Incorporated (SMC Ltd Inc.) under the *Companies Ordinance*. IMC or SMC Ltd Inc. of SSB should be registered as a charitable organization under Section 88 of the *Inland Revenue Ordinance*. The organization shall be the School Management Committee (SMC) of the school.<sup>1</sup>

#### Operation of the school

3.3 SSB can approach the respective Senior School Development Officer (SSDO) of EDB who will assist SSB in establishing a new school in areas such as:

- (a) fulfilling terms in the Service Agreement signed between the school and the Government;
- (b) implementing proposals in the school plan accepted by EDB with amendments, if any; and
- (c) briefing SSB and proposed managers of the school on the requirements and procedures in operating the new school.

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<sup>1</sup> In the case of a school with IMC, the *Education Ordinance* stipulates that the composition of IMC shall include sponsoring body managers, a parent manager, a teacher manager, the principal, an alumni manager, an independent manager and alternate managers (if any). The number of sponsoring body managers shall not exceed 60% of the maximum number of managers that IMC may have under its constitution. In the case of a school without IMC, SMC shall comprise the principal, representatives from SSB, parents, teachers, other community members or professionals and when appropriate, alumni.

### Five-year financial budget under the direct subsidy scheme

3.4 A set of standard schedules on the financial budget of the new DSS school will be issued to SSB by EDB. The School Supervisor is required to submit a completed five-year financial budget for assessment so that the proposed fees can be approved by the respective SSDO before the school commences operation.

### School accounts

3.5 The School Supervisor (in the case of a school without IMC) or the designated manager (in the case of an IMC school) should open a bank account under the registered name of the school or IMC for receipt of Government subsidies.

### Registration of school and school managers

3.6 According to the *Guidelines for Registration of a New School* issued by EDB, SSB should follow the procedures stated below for registration of the school and school managers:

- (a) The applicant is required to forward relevant information and documents to the School Registration and Compliance Section of EDB;
- (b) After the School Registration and Compliance Section has received all relevant application forms, documents and information in compliance with the requirements laid down in the *Education Ordinance*, EDB will consider issuing a Certificate of Provisional Registration of A School or a Certificate of Registration of A School to the school concerned within 10 working days, and the school may commence operation upon being provisionally registered or registered;
- (c) Normally, the Certificate of Provisional Registration is valid for one year. A school should fully comply with all the requirements listed below before full registration can be considered:

- (i) requirements on school management (e.g. registration of teachers, approval of the school principal, design of syllabuses, choice of textbooks, allocation of timetables, enrolment of students and collection of tuition fees) set by EDB;
  - (ii) health requirements set by the Department of Health; and
  - (iii) requirements set by the Fire Services Department, if any; and
- (d) If the school fails to comply with the above-mentioned requirements within the period of validity under its provisional registration, the provisional registration of the school will not be extended automatically<sup>2</sup>, and the school will become an unregistered school upon the expiry of its provisional registration.

#### Non-compliance with the agreed operating standard

3.7 Under the Service Agreement, the Government has the right to terminate the Service Agreement and to repossess the school premise if SMC, after being served adequate prior notice and a reasonable time allowing for remedial action to be taken has expired, still fails to achieve the agreed operating standard for the school in accordance with the School Development Plan as embodied in the Service Agreement.

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<sup>2</sup> Under Section 15(2) of the *Education Ordinance*, the Permanent Secretary for Education may extend the period of provisional registration of a school for such further periods, not exceeding 12 months at one time, as he thinks fit. According to EDB, there are various circumstances under which an extension of provisional registration may be considered appropriate. For example, the school in question may need more time to (a) comply with outstanding health requirements as specified by the Department of Health; (b) appoint the school principal; and (c) deal with unsettled complaints.

#### **4. Monitoring of direct subsidy scheme schools**

4.1 DSS schools are accountable to the public for the quality of educational services and the proper use of Government and school funds. They are required to adhere to the following guiding principles issued by EDB for the proper and effective operation of schools:

- (a) complying with laws and regulations;
- (b) putting the interest of students as the first priority;
- (c) operating the school in a fair, just and open manner;
- (d) maintaining transparency in school management;
- (e) taking key stakeholders' concerns into consideration in the decision-making process;
- (f) deploying resources properly and effectively; and
- (g) making reflections and improvement through continuous evaluation.

4.2 To ensure that DSS schools meet the service and operating standards required, schools are subject to compliance vetting and quality assessment conducted by EDB.

##### Compliance vetting

4.3 DSS schools are subject to compliance vetting by EDB to check, by way of information collected regularly through available channels such as school inspections and audited accounts, whether there is any breach of requirements, in particular in the following major areas:

- (a) admission conditions and requirements
  - (i) to check if the admission conditions and requirements have been breached;

## (b) statutory requirements

- (i) to check if the requirements of the *Education Ordinance*, the *Education Regulations* and such other statutory requirements applicable to DSS schools are complied with; and

## (c) financial management

- (i) to check if malpractice of financial management is observed.

4.4 Under the Service Agreement, SSB shall ensure SMC to submit to the Government annually, beginning one year from the opening of the school, a complete statement of the accounts of the school audited by a certified public accountant and submitted at such time and in such manner as Government may specify.

4.5 In addition, the Director of Audit is allowed access to records and accounts of DSS schools and to records and accounts of any controlling agencies to which money from DSS schools is diverted. In this connection, the staff of DSS schools or of any controlling agencies shall be obliged to explain to the Director of Audit matters relating to the receipt, expenditure or custody of money which is diverted from the schools concerned.

### *Non-compliance*

4.6 Appropriate actions (including termination of subsidies) could be taken if the schools do not pass the compliance vetting. Follow-up reviews by EDB will be performed to ensure timely rectification of the situation.

### Quality assessment

4.7 The purpose of quality assessment is to provide an external review on the performance of the school as a whole. As such, EDB may assess the performance of the school by conducting:

- (a) full inspections along domains such as management and organization, teaching and learning, support for students and school ethos, and attainment and achievement;

- (b) focus inspections on one of the domains or a specific area (e.g. discipline, home-school co-operation, medium of instruction, teaching/learning of a subject);
- (c) external school review; or
- (d) other new performance measures to be introduced in the future.

4.8 The Government may periodically review the performance of the school during the term of the Service Agreement and advise SMC to make the necessary improvements to overcome identified problems. A comprehensive review will be conducted after the first five-year period, or at any length of period as the Government may think fit, after the school has commenced operation. The assessment will primarily take into account the school annual reports, school self-evaluation and performance targets stated in the Service Agreement and inspections and reviews mentioned in paragraph 4.7 above.

4.9 After assessment, the Government may:

- (a) require SMC to draw up and implement an action plan to overcome identified problems or to achieve the targets with respect to the Service Agreement within a reasonable period specified by the Government;
- (b) monitor the progress of implementation and the achievement of the targets; and
- (c) conduct follow-up inspections during and/or after the period of time given to the school to improve.

### *Non-compliance*

4.10 If the Government considers that SMC fails to improve with respect to paragraph 4.9 above, under the *Education Ordinance*, the relevant public officers may:

- (a) appoint additional school managers to SMC for such period as he thinks fit;
- (b) not to renew the Service Agreement by giving SMC nine months' notice before that Agreement expires;

- (c) terminate the Service Agreement at any time before the expiry of the Agreement by giving SMC nine months' notice to that effect; or
- (d) take any other measures as he thinks fit.

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30 June 2009  
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