



中華人民共和國香港特別行政區政府總部教育局
Education Bureau
Government Secretariat, Government of the Hong Kong Special Administrative Region
The People's Republic of China

本局檔號 Our Ref.:
來函檔號 Your Ref.:

電話 Telephone: 2892 6663
傳真 Fax Line: 2116 0615

17 December 2010

Ms Miranda HON
Clerk to Public Accounts Committee
Legislative Council
8 Jackson Road
Central
Hong Kong

*Urgent by post and fax
(Fax No. 2537 1204)*

Dear Ms Hon,

**The Director of Audit's Report on the
Results of Value for Money Audits (Report No. 55)**

**Administration of the Direct Subsidy Scheme (Chapter 1)
And Governance and administration of Direct Subsidy Scheme schools
(Chapter 2)**

I refer to your letters dated 13 and 14 December 2010 and our reply earlier today. We are now enclosing **Annexes A, D, H, I and L**.

Yours sincerely,

(Mrs. Michelle WONG)
for Secretary for Education

c.c. Secretary for Financial Services and the Treasury (Fax no.: 2147 5239)
Director of Audit (Fax no.: 2583 9063)

Response to the letter of 13 December 2010 from Public Accounts Committee regarding paragraph 1(a)

(a) *according to paragraph 7 in Annex A of your letter dated 11 December 2010, three schools had not set aside the required amount for fee remission/scholarship scheme in 2006/07, 2007/08 and 2008/09. Please provide a copy of the EDB's letters to these schools concerning the under-provision for fee remission/scholarship schemes and their replies to the EDB, the actual amounts set aside by these schools for fee remission/scholarship schemes and the amounts of under-provision in 2006/07, 2007/08 and 2008/09, as well as the latest situation.*

Copies of EDB's letters to the three schools not setting aside the required amount for fee remission / scholarship scheme in 2006/07, 2007/08 and 2008/09 and schools' replies are provided as Appendices to this Annex. The parts relating to fee remission/scholarship schemes are sidelined for Members' ease of reference. A summary table of the appendices is as follows:

School	School Year	EDB's Letter to School	Schools' Reply to EDB
17	2007/08	Appendix 1  School 17 Appendix 1.pdf	Appendix 3  School 17 Appendix 3.pdf
	2008/09		
	2009/10 and onwards	Appendix 2  School 17 Appendix 2.pdf	Appendix 4  School 17 Appendix 4.pdf Appendix 5  School 17 Appendix 5.pdf Appendix 6  School 17 Appendix 6.pdf
21	2007/08		Appendix 11  School 21 Appendix 11.pdf
	2008/09	Appendix 7  School 21 Appendix 7.pdf	Appendix 12  School 21 Appendix 12.pdf
	2009/10 and onwards	Appendix 8  School 21 Appendix 8.pdf	Appendix 13  School 21 Appendix 13.pdf
		Appendix 9  School 21 Appendix 9.pdf	Appendix 14  School 21 Appendix 14.pdf
	Appendix 10  School 21 Appendix 10.pdf	Appendix 15  School 21 Appendix 15.pdf	

School	School Year	EDB's Letter to School	Schools' Reply to EDB
22	2007/08	Appendix 16  School 22 Appendix 16.pdf	Appendix 22  School 22 Appendix 22.pdf
	2008/09	Appendix 17  School 22 Appendix 17.pdf	Appendix 23  School 22 Appendix 23.pdf
	2009/10 and onwards	Appendix 18  School 22 Appendix 18.pdf	
		Appendix 19  School 22 Appendix 19.pdf	
		Appendix 20  School 22 Appendix 20.pdf	
		Appendix 21  School 22 Appendix 21.pdf	

The actual amounts set aside by these three schools for fee remission / scholarship schemes and the amounts of under-provision in 2006/07, 2007/08 and 2008/09 are as follows:

***Note by Clerk, PAC: Appendices 1 to 23 not attached.**

School Year	Actual amount set aside per audited accounts	Amount of under- provision
	\$	\$
<u>School 17</u>		
2006/07	811,789.00	218,902.00
2007/08	674,550.00	559,210.00
2008/09	1,022,475.00	381,130.00
<u>School 21</u>		
2006/07	655,900.02	563,039.98
2007/08	1,057,893.60	675,896.40
2008/09	1,017,551.00	931,490.60
<u>School 22</u>		
2006/07	421,400.00	2,457,250.00
2007/08	696,250.00	2,640,262.50
2008/09	945,850.00	3,056,950.00

Note 1: Amount of under-provision is based on the minimum requirement of 10% of school fee income.

Note 2: All schools have agreed to top up funding in their 2009/10 accounts to make good the shortfall.

The latest situation of the 3 schools is as follows:

School 17

- The school confirmed compliance by submitting a copy of its auditor's report (draft) for information on 14.12.2010.

School 21

- The school submitted a letter dated 19.8.2010 to EDB confirming that the school had designated 10% of the school fee collected in separate ledger and provided fee remission for student with financial needs and scholarship for students with excellent achievement. The balance is reflected in the annual school account.

- Upon receipt of our letter of 8.12.2010 regarding the inadequate position of fee remission reserve, the school confirmed in its letter on 14.12.2010 that it would set aside the required amount for fee remission and scholarship scheme in the 2008/09 and 2009/10 school years. We will follow up with the school to check if it has actually complied with the requirement in due course.

School 22

- Upon our repeated urge, the school responded on 14.9.2010, and subsequently provided us on 3 December 2010 a balance sheet showing as at 31.8.2010 the amount of fee remission reserve set aside. EDB is following up with the school to check if it has actually complied with the requirement.

Response to the letter of 13 December 2010 from Public Accounts Committee regarding paragraph 1(d)

(d) regarding each of the 22 schools listed out in Table 1 in paragraph 3.3(b) of Chapter 2:

(i) what the schools' accumulated reserve for fee remission/scholarship schemes are; and

(ii) whether the schools had applied for school fee increase in the past and the rate of increase approved by the EDB.

- Please refer to the Appendix.

Accumulated Reserves for Fee Remission/Scholarship Schemes in 2008/09 and
Approved Fee Increase Details of 22 DSS Schools in 2008/09 and 2009/10 School Year

No	School Number	Level	2008/09			Applied for Fee Increase (2008/09)				Applied for Fee Increase (2009/10)			
			Accumulated Reserve for fee remission/scholarship schemes as at 31 August 2009 per audited accounts	Utilization Rate per EDB's calculations (Note 1)	Annual School Fee Income per audited accounts	Application Submitted	Level	Approved Increase Rate	Approved Increase Amount	Application Submitted	Level	Approved Increase Rate	Approved Increase Amount
								(%)	(\$)			(%)	(\$)
1	School 1	Sec	715,623	90%	2,666,610	No	P1-P6			Yes	P1-P6		
							S1-S3				S1-S3		
							S4-S7				S4-S7	5	400
2	School 2	Pri/Sec	17,663,841	6%	37,108,900	No	P1-P6			No	P1-P6		
							S1-S3				S1-S3		
							S4-S7				S4-S7		
3	School 3	Sec	298,244	88%	12,110,994	Yes	P1-P6			Yes	P1-P6		
							S1-S3	66.7	6,400		S1-S3	25	4,000
							S4-S7				S4-S7	25 (Note 2)	3,500
4	School 4	Sec	3,468,270	23%	16,741,700	Yes	P1-P6			No	P1-P6		
							S1-S3	18.05	5,000		S1-S3		
							S4-S7				S4-S7		
5	School 5	Pri	49,700	63%	1,353,000	No	P1-P6			Yes	P1-P6	7	700
							S1-S3				S1-S3		
							S4-S7				S4-S7		
6	School 6	Sec	3,975,270	46%	28,004,700	No	P1-P6			No	P1-P6		
							S1-S3				S1-S3		
							S4-S7				S4-S7		
7	School 7	Sec	0	90%	4,654,975	Yes	P1-P6			No	P1-P6		
							S1-S3	28.57	2,000		S1-S3		
							S4-S7	(Note 2)	(Note 2)		S4-S7		
8	School 8	Pri/Sec	0	100%	22,130,414	Yes	P1-P6	9.6	1,300	No	P1-P6		
							S1-S3	17.9	2,500		S1-S3		
							S4-S7	5.9 (Note 2)	910		S4-S7		
9	School 9	Sec	33,308	96%	6,539,454	Yes	P1-P6			No	P1-P6		
							S1-S3				S1-S3		
							S4-S7 (Note 3)	7.8	1,200		S4-S7		
10	School 10	Sec	0	100%	1,612,687	No	P1-P6			Yes	P1-P6		
							S1-S3				S1-S3		
							S4-S7				S4-S7	7	280
11	School 11	Pri/Sec	15,465,326	35%	26,588,557	Yes	P1-P6	8.33	2,200	No	P1-P6		
							S1-S3	7.8	2,530		S1-S3		
							S4-S7				S4-S7		

No	School Number	Level	2008/09			Applied for Fee Increase (2008/09)				Applied for Fee Increase (2009/10)			
			Accumulated Reserve for fee remission/scholarship schemes as at 31 August 2009 per audited accounts	Utilization Rate per EDB's calculations (Note 1)	Annual School Fee Income per audited accounts	Application Submitted	Level	Approved Increase Rate	Approved Increase Amount	Application Submitted	Level	Approved Increase Rate	Approved Increase Amount
								(%)	(\$)			(%)	(\$)
12	School 12	Sec	13,880,682	60%	51,760,150	No	P1-P6			No	P1-P6		
							S1-S3				S1-S3		
							S4-S7				S4-S7		
13	School 13	Sec	15,515,429	67%	40,413,650	No	P1-P6			No	P1-P6		
							S1-S3				S1-S3		
							S4-S7				S4-S7		
14	School 14	Pri	9,338,940	20%	16,125,900	No	P1-P6			No	P1-P6		
							S1-S3				S1-S3		
							S4-S7				S4-S7		
15	School 15	Sec	0	100%	11,403,540	No	P1-P6			No	P1-P6		
							S1-S3				S1-S3		
							S4-S7				S4-S7		
16	School 16	Pri	30,933,220	44%	36,024,000	No	P1-P6			Yes	P1-P6	25	12,000
							S1-S3				S1-S3		
							S4-S7				S4-S7		
17	School 17	Sec	0	73%	14,036,050	Yes	P1-P6			No	P1-P6		
							S1-S3	20	3,000		S1-S3		
							S4-S7	20	3,000		S4-S7		
18	School 18	Sec	4,334,661	53%	15,259,825	Yes	P1-P6			Yes	P1-P6		
							S1-S3	5.6	2,500		S1-S3	5.1	2,500
							S4-S7				S4-S7		
19	School 19	Sec	5,167,614	100%	58,002,000	No	P1-P6			Yes	P1-P6		
							S1-S3				S1-S3	8.3	4,000
							S4-S7				S4-S7	8.3	4,000
20	School 20	Sec	0	100%	4,244,400	No	P1-P6			No	P1-P6		
							S1-S3				S1-S3		
							S4-S7				S4-S7		
21	School 21	Sec	0	52%	19,490,416	Yes	P1-P6			Yes	P1-P6		
							S1-S3	25	5,000		S1-S3	7	1,500
							S4-S7				S4-S7	6	1,500
22	School 22	Pri/Sec	0	24%	40,028,000	Yes	P1-P6	10	2,000	Yes	P1-P6	4.5	1,000
							S1-S3	8.7	2,000		S1-S3	4	1,000
							S4-S7	8.7	2,000		S4-S7	4	1,000

Note:

- 1 The utilization rate is arrived at by comparing the fee remission/ scholarship paid during the year with the amount required to be set aside in accordance with EDB's requirement, or with the amount actually set aside by the school(s) concerned if this amount is higher -- applicable to School no. 8, 10, 15 and 20.
- 2 School's application for reduction of fees at particular levels of S4 to S7 was also approved.
- 3 Other than the ordinary S6/7 classes, this DSS Senior Secondary School has been approved to operate one-year practical vocational-oriented programmes before the full implementation of the New Senior Secondary Curriculum catering for S5 graduates of different aptitudes. The fee revision is applicable to this programme.

Response to the letter of 13 December 2010 from Public Accounts Committee regarding paragraph 1(h)

(h) please explain the EDB's existing policy towards DSS schools using their operating reserves to fund large-scale capital works, such as construction of school premises; and whether such policy will be revised.

DSS schools are given the flexibility in using their operating reserves of non-government funds to finance capital projects and maintenance works of above-standard facilities such as construction of additional floors, swimming pool, etc that would benefit the students. Apart from the operating reserves accumulated from fee incomes, some DSS schools have raised funds separately for large-scale capital projects.

To facilitate future monitoring of the operating reserves, we will discuss with DSS schools on the need for setting aside separate reserve with designated account for large-scale capital works and their related maintenance, as well as rules of setting aside separate reserves. Moreover, we will make it more explicit that DSS schools should consider the following factors when planning large-scale capital works:

- (i) the capital works should meet educational and school needs, and in the interests of students; and
- (ii) there should be due regard to the parents' affordability and appropriate measures should be adopted to ease out the increase which may include spreading out the expenses of works over a longer period of time.

We will also request DSS schools that when planning to carry out large-scale capital works, they should consult parents and during the process, they should provide parents with sufficient information including the possible impact of the capital works on school fees and financial information of schools.

Response to the letter of 13 December 2010 from Public Accounts Committee regarding paragraph 1(i)

- (i) *regarding the eight schools mentioned in Table 4 in paragraph 4.10(a) of Chapter 2, the percentage of their operating reserves which is used to fund the expenses of non-recurrent capital works.*

Based on the 2008/09 audited accounts and information provided by schools concerned, six out of the eight schools did not have non-recurrent capital works expenses charged to their income and expenditure accounts or accumulated operating reserves in the year. The remaining two schools had charged non-recurrent capital works expenses to the accounts which amount to 2.4% and 15.1% of their operating reserves respectively.

Response to the letter of 14 December 2010 from Public Accounts Committee regarding the following:

Although Schools C, D and E were admitted to the DSS in 2002/03 to 2004/05, no SSB Service Agreement had been signed by them up to June 2010. It was mentioned at the public hearing on 29 November 2010 that there were disagreements between the schools and the EDB over some terms and conditions of the draft SSB Service Agreements. The committee would like to know the details of the terms and conditions which had been disagreed by the three schools and the main point of contention, the actions that have been taken by the EDB to expedite the signing of the agreements, as well as the latest position of the matter.

Schools C, D and E were aided schools with their own incorporation ordinances before joining the DSS. The three schools did not accept the terms in the draft SSB Service Agreement¹ relating to the school governance structure. The draft Agreement stipulates that the School Management Committee shall comprise the principal, representatives from the SSB, parents and teachers, other community members or professionals and, where appropriate, alumni. The schools did not agree that they should modify their governance structure which is already stipulated in their respective ordinances following their admission to the DSS. They considered that they should be allowed to follow their proposed governance composition at the time of their application and approval for joining DSS. Having regard to the unique circumstances, the EDB has, having sought the advice of the Department of Justice, agreed to revise the draft Agreement allowing them to be managed and operated under their original governing framework.

Two of the above three schools were also concerned about a clause in the School Management Committee (SMC) Service Agreement that they are required to transfer to the Government at the SMC's own cost and expense all assets and inventories purchased with government subsidies or funds generated by the School upon termination of the Service Agreement. They disagree with the clause because owing to their long history, they have many assets and

¹ From the 2000/01 school year onwards, each school joining DSS is required to sign both the SSB Service Agreement and the SMC Service Agreement.

inventories acquired prior to their turning to DSS, which, in their view, should not be transferred to the Government upon termination of the SMC Service Agreement. The EDB has been liaising with and reminding the schools to expedite the signing of the Agreements by sending reminders and holding meetings. In September 2010, the EDB agreed to take into account their unique historical circumstances and intends to refine the related clause on the transfer of assets to the Government upon the termination of the SMC Service Agreement. Legal advice from the Department of Justice is being sought. Once the relevant revision of the SMC Service Agreement is agreed by both parties, the SSB Service Agreements will be signed.

As for the remaining school, its SSB agreed in August 2010 to sign the SSB Service Agreement subject to some minor amendments to a few clauses. Legal advice from the Department of Justice on the SSB's proposed revisions is being sought and the Service Agreement will be signed as soon as practicable.