

For discussion on 8 November 2010

Legislative Council Panel on Education

Grant to support the Hong Kong Examinations and Assessment Authority for continual rental of onscreen marking centre on Hong Kong Island, and for conducting the Hong Kong Certificate of Education Examination and the Hong Kong Advanced Level Examination for private candidates in 2011 and 2013 respectively

PURPOSE

The Hong Kong Examinations and Assessment Authority (HKEAA) needs funding support to continue renting a temporary accommodation for the onscreen marking (OSM) centre on Hong Kong Island for a further period of five years, and to conduct the Hong Kong Certificate of Education Examination (HKCEE) and the Hong Kong Advanced Level Examination (HKALE) for private candidates in 2011 and 2013 respectively. This paper seeks Members' views on the funding proposal.

PROPOSAL

2. The Secretary for Education proposes to -
 - a) increase the commitment of the non-recurrent grant of \$16 million approved by the Finance Committee (FC) vide FCR (2006-07)18 to HKEAA for renting the temporary Island Centre by \$41.15 million to \$57.15 million, to meet the rental and related costs for another five years; and
 - b) make a non-recurrent grant of \$90.65 million as a one-off funding support to HKEAA to meet the expenses in conducting the HKCEE and the HKALE for private candidates in 2011 and 2013 respectively.

JUSTIFICATION

Continual rental for temporary Island OSM Centre

Centralised onscreen marking

3. The aims of using centralised OSM for marking answer scripts of public examinations

are to enhance security of scripts by reducing the need for physical handling of original examination scripts, eliminate errors in addition of marks and enable real-time monitoring of the marking quality. OSM was introduced in 2007, and the plan is to expand the number of subjects marked by OSM progressively, paving the way for its full implementation for appropriate subjects (around 22 subjects) under the Hong Kong Diploma of Secondary Education Examination (HKDSEE). In 2010, OSM was applied to eight HKCEE subjects and nine HKALE subjects. About 1.3 million scripts were marked onscreen and about 4 200 markers and marking assistants were involved. In order to facilitate markers from different areas of Hong Kong, HKEAA's plan is to have four onscreen marking centres spreading across the territory¹ to provide reasonable accessibility. Outside the annual public examination period from April to August, HKEAA utilises these OSM centres for other examinations and assessments (such as the Territory-wide System Assessment and various international and professional examinations which HKEAA administers for its clients) and for conducting training and briefings for teachers, markers and other examination/assessment personnel.

More time required for mapping out and implementing the long term accommodation plan of HKEAA

4. The original long term accommodation plan for HKEAA was to re-develop the ex-North Kowloon Magistracy Building (ex-NKMB) in Sham Shui Po as HKEAA headquarters, hence freeing up its existing offices in Southorn Centre of Wan Chai and in San Po Kong (both are accommodation provided by the Government) for conversion into the permanent Island and Kowloon East OSM Centres by around 2010. The proposed ex-NKMB development plan could not be further pursued because it was subsequently included in the "Revitalising Historic Buildings Through Partnership Scheme" in 2008.

5. Despite our subsequent effort to identify alternative long-term accommodation for HKEAA, no suitable surplus government premises or vacant school premises could be identified as the HKEAA permanent headquarters or permanent OSM centres. A revised long-term accommodation plan has therefore been developed. The revised plan is to re-develop HKEAA's existing premises at San Po Kong as HKEAA's permanent headquarters which will also house a permanent Kowloon East OSM Centre. Then the offices in Southorn Centre will be moved to the new headquarters and the Southorn Centre premises will be converted to a permanent Island OSM Centre. If this plan materialises, four permanent OSM centres will be in place.

6. Funds have been secured for HKEAA to conduct relevant studies and preparation works for the re-development of its existing premises in San Po Kong and the preparation works are under way. Taking into account the lead time required for the relevant preparation

¹ Currently, there are four OSM centres, two permanent (set up by Government funding) and two temporary (one set up by Government funding and one out of HKEAA's own funds). The temporary centre set up by Government funding - the Island OSM Centre in the Asian House of Wan Chai, established by renting commercial premises, with funding of \$16.0 million for four years' rental and \$5.9 million for fitting-out approved by FC vide FCR(2006-07)18 on 7 July 2006 - is the subject of this proposed grant.

works and the construction period, it is expected that the temporary Island OSM Centre will need to continue to operate for about five more years. As there is still no suitable government premises or vacant school premises to accommodate the temporary Island OSM Centre, we need to continue operating the centre in commercial premises. The approved grant of \$16 million to cover the rental for the temporary Island OSM Centre has been used up in May 2010. In order to maintain the temporary Island OSM Centre so that the implementation and extension of OSM will not be affected, we propose to increase the commitment for renting the temporary Island OSM Centre by \$41.15 million to meet the rental for a further period of about five years from December 2010 until the establishment of a permanent Island OSM Centre. Meanwhile, HKEAA has absorbed/will absorb the rental from June to November 2010 from within its reserve.

Conducting the HKCEE and the HKALE for private candidates in 2011 and 2013 respectively

7. With the introduction of the new academic structure (NAS) in the 2009/10 school year, the new HKDSEE will replace the HKCEE and the HKALE. Under the timetable of the implementation of the new academic structure, the last cohort of HKCEE and HKALE candidates took/will take the respective examinations in 2010 and 2012. Nevertheless, to provide a further opportunity for students who wish to improve their HKCEE and HKALE results so that the introduction of HKDSE in 2012 would not be regarded as 'dead end' for them, HKEAA will conduct the two examinations for the last time for private candidates in 2011 and 2013 respectively. A total of 22 subjects will be offered in the 2011 HKCEE and 15 Advanced level and 16 Advanced Supplementary level subjects will be offered in the 2013 HKALE.

8. The number of private candidates that have applied for the 2011 HKCEE is 29 619 (23.3% of the 2010 candidature). Using the statistics on the number of private candidates taking the HKALE in the past three years for projection, it is estimated that there will be about 8 352 private candidates sitting for the 2013 HKALE (21% of the 2010 candidature). The estimated examination fee income from the 2011 HKCEE and the 2013 HKALE (assuming that the examination fee maintains at the 2011 level) will be \$22.94 million (18.7% of 2010 HKCEE) and \$17 million (16.7% of 2010 HKALE) respectively.

9. Despite the considerable reduction in the candidature, the various costs for conducting the two examinations for private candidates in 2011 and 2013 do not necessarily reduce proportionately to the reduction in candidature. On one hand, there are certain administration/operation costs (e.g. printing questions papers and answer books, and delivery and collection of examination papers and scripts) and examination personnel costs (e.g. costs of markers, examination centre supervisors and invigilators) that are proportional to the size of the candidature. On the other hand, there are some cost items that will not reduce in proportion to the reduction in the candidature (e.g. administration/operation, staff and examination personnel costs for preparing question papers and marking schemes, preparing examination related documents for examination personnel and candidates, modification of the examination

administration information technology systems to accommodate necessary changes, operating centres for registration, training and briefing for centre supervisors/invigilators, setting marking and grading standards for individual subjects, etc and indirect costs like overhead). It is estimated that the costs for conducting the 2011 HKCEE and the 2013 HKALE for private candidates will be \$64.75 million (44.9% of 2010 HKCEE) and \$65.84 million (64.1% of 2010 HKALE) respectively.

10. In order not to impose unduly high financial burden to private candidates of the 2011 HKCEE and 2013 HKALE by raising the examination fees drastically, HKEAA estimates that there will be a deficit of \$41.81 million and \$48.84 million respectively in conducting the two examinations. We therefore propose that a one-off grant of \$90.65 million be made to HKEAA to cover the anticipated deficit.

HKEAA's need for funding support

11. While HKEAA is a self-financing body with its recurrent operations conducted on a self-financing basis, being the only statutory assessment authority in Hong Kong and a strategic partner of the Government in providing quality education system and supporting the NAS, the Government subsidises its accommodation requirements as well as provides one-off non-recurrent funding, where justified.

12. HKEAA has critically reviewed its financial position. It will not be able to absorb the costs of continued renting the temporary Island OSM Centre and the huge deficit of conducting the 2011 HKCEE and the 2013 HKALE for private candidates which is one-off in nature. The forecasted reserve of HKEAA by the end of the 2009-10 financial year (ending 31 August 2010) is about \$88.1 million (only 21.9% of its annual recurrent expenditure). Without the proposed funding support, and taking into account the significant expenditure that will be incurred in 2011 for the necessary preparation and development works of the HKDSEE to be launched in 2012, the reserve will drop drastically to only about \$22.9 million (about 5.8% of its annual recurrent expenditure) by the end of the 2010-11 financial year, which cannot cover the deficit in the 2013 HKALE. Provision of the proposed grants can avoid the need for drastic fee hikes to cover the cost.

IMPLEMENTATION PLAN

13. The current tenancy of the temporary Island OSM Centre is up to 31 August 2011. Before the expiry of the current rental period, HKEAA will try to negotiate with the landlord to stay in the existing premises. If the tenancy of the existing premises cannot be renewed and HKEAA needs to identify suitable new premises, it will not go for the high-end premises. We consider it reasonable for HKEAA to aim at Grade B² office premises with reasonably good security, central air-conditioning and desirable accessibility by public transport.

² Definition of Grade B private office premises: ordinary design with good quality finishes; flexible layout; average-sized floor plates; adequate lobbies; central or free-standing air-conditioning; adequate lift services; good management; parking facilities not essential.

14. The registration and preparation work for the 2011 HKCEE for private candidates started in September 2010. The examination will be held from April to June 2011 and the result will be released in August 2011. The registration and preparation work for the 2013 HKALE will start in September 2012 and the examination period will be from March to May 2013.

FINANCIAL IMPLICATIONS

15. A tentative breakdown of the proposed grant is as follows -

	Items	Estimated Cost (\$ million)
(i)	Non-recurrent grant – commercial rental	41.15
(ii)	Non-recurrent grant – the 2011 HKCEE and the 2013 HKALE	90.65
	Total amount of proposed grant	<hr/> 131.8 <hr/>

16. The current tenancy for the temporary Island OSM Centre is for a term of two years. The estimate for the non-recurrent grant of \$41.15 million for five years is based on the rental including management fee and air conditioning charges of \$216.8 per m² (net usable area) of the current tenancy agreement up to August 2011. In projecting the rental for the future tenancy renewal in 2011, 2013 and 2015 (assuming a term of two years per contract), we have made reference to the average market rent of \$249 per m² (net usable area excluding management fees and air-conditioning charges) for Grade B offices in North Point/Quarry Bay (easy accessibility with public transport and relatively lower average rental) in 2010 with a projected increase in rental of 11% per year based on the average rate of annual rental increase for the area in recent five years³. The management fees and central air conditioning charges is projected to be increased by 3% per year making reference to the increase in Composite Consumer Price Index of 3% in August 2010. Depending on the tenancy negotiation, there may be a need for the temporary centre to be relocated and in that circumstances, grant on fitting out work may be required. HKEAA will be mindful about the cost effectiveness when it enters into commercial lease. It will bear the recurrent consequences arising from operating the temporary Island OSM Centre.

17. The estimate for the non-recurrent grant of \$90.65 million is to cover the deficit for conducting the 2011 HKCEE and the 2013 HKALE. Based on the 2011 HKCEE registration figures and the past statistics of the subject entries of HKALE by private candidates, a breakdown on the projected income and expenditure for the 2011 HKCEE and the 2013

³ The average market rent and the average rate of annual increase in rent is worked out based on the Property Market Statistics of the Rating and Valuation Department.

HKALE is as follows -

	2011 HKCEE (\$ million)	2013 HKALE (\$ million)
Income	22.94	17.00
Expenditure	64.75	65.84
Deficit	41.81	48.84

18. The total grant of \$131.8 million is a projection of the 5-year rental for the temporary Island OSM Centre and the deficit for conducting the 2011 HKCEE and the 2013 HKALE examinations. The amount of grant to be provided to HKEAA will be the actual rental and deficit for conducting the two examinations with ceilings capped at \$41.15 million and \$90.65 million respectively.

MONITORING THE USE OF THE GRANT

19. The existing governance structure of HKEAA will play significant monitoring roles. The HKEAA Council will supervise the conducting of the examinations from a strategic and macro perspective. The Public Examinations Board will oversee the implementation of public examinations whereas the Finance Committee will monitor the use of the grant.

20. In respect of the Government's general monitoring role, the Education Bureau is represented on the HKEAA Council and its committees. HKEAA is also required to submit its annual estimates of income and expenditure and programme of its proposed activities to the Administration for approval, and to table its annual audited accounts and report of activities at the Legislative Council every year under the Hong Kong Examinations and Assessment Authority Ordinance (Cap. 261).

BACKGROUND

21. HKEAA is a statutory body established in 1977 under the Hong Kong Examinations and Assessment Authority Ordinance (Cap. 261). It is governed by a Council with members drawn from various sectors, including tertiary institutions, schools, business and the Government. Its statutory responsibility is to conduct the two existing public examinations (namely the HKCEE and the HKALE) and the new HKDSEE. It also runs a number of assessment services including the Territory-wide System Assessment, Language Proficiency Assessment for Teachers, and a range of professional and international examinations. It operates on a self-financing basis and does not receive any recurrent subvention from the Government.

THE WAY FORWARD

22. Subject to Members' comments, we plan to submit the funding proposal to the Finance Committee for approval in December 2010.

Education Bureau
October 2010