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Panel on Education

**Updated background brief prepared by the Legislative Council Secretariat
for the meeting on 20 April 2012**

Direct Subsidy Scheme Schools

Purpose

This paper summarizes the concerns of the Panel on Education ("the Panel") about the administration, governance and monitoring of Direct Subsidy Scheme ("DSS") schools.

Background

2. 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 2011, there were 74 DSS schools, comprising 11 primary, 53 secondary and 10 primary-cum-secondary schools.

3. The objective of DSS is to inject diversity to Hong Kong's school system through the growth of a strong subsidised private school sector so that parents would have more choices in finding suitable schools for their children. To ensure their quality, DSS schools are required to sign a Service Agreement with the Government comprising a proposed school plan and indicators for evaluation. Mechanisms are also put in place by the Education Bureau

("EDB") to control and monitor the quality of DSS schools.

4. In March 2010, the Public Accounts Committee ("PAC") issued its Report No. 55 which covered, inter alia, the administration of DSS and the governance and administration of DSS schools. The conclusions and recommendations of PAC are in **Appendix I**. To address the concerns raised by PAC, EDB has set up a Working Group on DSS ("the Working Group") chaired by the Permanent Secretary for Education. The Working Group is responsible for reviewing the administration of DSS as well as the governance and administration system of DSS schools and putting forward recommendations on measures for continuous improvement. The review covers, inter alia, how DSS schools should strengthen their governance structure and internal control mechanism, including increasing the transparency in school management, improving the implementation of their fee remission schemes and enhancing their financial management.

5. The Chairman of PAC moved a motion for debate on the PAC Report at the Council meeting of 2 March 2011. A summary of the major recommendations made by Members at the motion debate and the Administration's response to the recommendations is in **Appendix II**.

Deliberations of the Panel on Education

6. Arising from the alleged managerial and financial problems of the Pegasus Philip Wong Kin Hang Christian Primary School cum Junior Secondary School ("the School"), the Panel discussed the monitoring of DSS schools at its meeting on 6 July 2009. On 11 July 2011, the Administration briefed the Panel on the progress on its follow-up work pertaining to the recommendations made in the PAC Report. The major concerns of members are summarized in the following paragraphs.

Monitoring of DSS schools

7. Members shared the concern raised in the PAC Report about the malpractices in the administration of DSS schools (such as carrying out trading operations without seeking prior approval from EDB, accepting donations from trading operators and selection of tuckshop operations without going through tendering procedure), which had revealed problems in the monitoring of DSS schools by the Administration. Members were concerned that some problematic DSS schools might continue to ignore or refuse to comply with the Administration's requirements and sought information on the actions to be taken by the Administration against such schools.

8. According to the Administration, the Working Group was formulating measures to strengthen DSS schools' internal governance and monitoring mechanisms to facilitate early detection of irregularities and malpractices. The monitoring mechanisms should include all key stakeholders such as members of School Management Committee ("SMC")/Incorporated Management Committees ("IMC") and representatives of parent-teacher associations to ensure rigorous checks and balances. Measures which could be taken by the Administration against non-compliant DSS schools included appointing school managers to the SMC/IMC of the school concerned, withdrawing the subsidy payable to the school or even terminating the SMC/IMC service agreement with the school. The Administration would not resort to these measures lightly so as not to affect the interests of students attending the schools. Emphasis should be placed on establishing effective internal control mechanisms to facilitate early identification and rectification of problems.

School fees

9. Members expressed concern that some DSS schools increased their school fees notwithstanding that they had accumulated a huge reserve, and considered that a mechanism should be put in place to regulate increase in school fees. Some members suggested that when a school's accumulated reserve or unused funds for the school fee remission and scholarship schemes reached a certain level, it should be ploughed back into the school's operation so as to defer any need for increase in school fees.

10. The Administration explained that the Working Group had considered the suggestion but was concerned that it might lead to pressure from parents of current students on schools for granting less fee remission and scholarships to students so that the reserve could be deployed for the reduction of school fees. This would run counter to the policy objective of ensuring that needy students would not be deprived of the opportunity to study in DSS schools. On the mechanism for fee increase, the Administration advised that DSS schools were required to consult parents on school fee adjustment and provide parents with appropriate financial information to justify the fee increase. The Administration was requested to provide the Panel with a sample of the financial information required to be provided by DSS schools to parents when proposing for school fee revision.

School fee remission and scholarship schemes

11. Members noted from the Administration that about 40% of the DSS schools had utilized more than 100% of the reserve set aside for the school fee remission/scholarship schemes; 23 schools (i.e. 33%) had used 50% to 100%; while 19 schools (i.e. 25%) had used less than 50%. Members expressed

concern and enquired about the reasons for the low utilization of the schemes by some DSS schools.

12. According to the Administration, most of the schools with low utilization rates of the schemes were primary schools, which might be attributable to the fact that relatively more children from better-off families performed better during interviews, rendering them a better chance of getting admitted to DSS primary schools. Schools with low utilization rates of the schemes had taken on board the Administration's advice and relaxed the eligibility criteria for fee remission and used the reserve to fund eligible students' purchase of textbooks and participation in extra-curricular activities including expenses for joining overseas study programmes. The Administration would look into ways to enhance the utilization of the schemes. Members requested the Administration to provide updated information on the utilization of the schemes when it reported to the Panel on its consideration of the Working Group report.

13. Members pointed out that it was not mandatory for DSS schools to offer fee remission to students from families receiving Comprehensive Social Security Assistance ("CSSA") and students receiving student financial assistance provided by the Student Financial Assistance Agency. There was also no regulation by the Administration on the level of fee remission. Under the existing policy, no special grant for school fees would normally be given under the CSSA Scheme to students who attended DSS schools. Members were of the view that the objective of allowing more needy students to attend DSS schools could not be met under the existing system.

14. According to the Administration, given that the grant of fee remission was subject to the availability of funds under the school fee remission and scholarship schemes, it had not mandated the provision of fee remission to all students meeting the eligibility criteria. Schools were encouraged to provide a simulation test for fee remission on their websites so that students could know in advance whether they were eligible for the remission and the level of the remission to facilitate their decision on school choice. The Administration would collect information on the provision of fee remission by DSS schools, and would review the need to adjust the existing arrangements for fee remission based on the information collected. As free education was provided by the Government for students receiving primary and secondary education in Government or aided schools, normally no special grant for school fees would be given under the CSSA Scheme to students who chose to attend DSS schools except for those who had been attending DSS schools before receiving CSSA.

15. Members noted that DSS schools were required to submit to the Administration a plan on the deployment of the reserve for financial assistance/scholarships when the reserve reached a cumulative amount

exceeding a school's half-year total fee income. As DSS schools were required to set aside at least 10% of their school fee income for the schemes each year, it would mean that a school could have its reserve for financial assistance/scholarships remaining unused for as long as five years before it was required to submit a plan on the deployment of the reserve. Members considered that the ceiling on the reserve required for submission of a plan to the Administration should be lowered.

Admission

16. Members urged the Administration to take measures to ensure that DSS schools would admit a certain number of economically disadvantaged students. Some members suggested that 10% of the DSS school places be reserved for central allocation under the Secondary School Places Allocation ("SSPA") System to enable more students from grass-root families to attend DSS schools. Some members considered that merely providing more information on fee remission was inadequate to help needy students overcome their psychological barrier in attending DSS schools which were generally perceived as "noble schools" and requested the Administration to take measures to proactively encourage needy students with good academic results to apply for DSS schools.

17. According to the Administration, it was not certain whether setting aside a certain percentage of DSS school places for allocation under SSPA would increase the chance of students from low-income families being admitted given that students from all strata participated in SSPA. Consideration should also be given to the autonomy of DSS schools in student admission. The Working Group was considering in a holistic manner different ways to improve the implementation of the school fee remission and scholarship schemes to ensure that students from grass-root families would also have a fair chance of being admitted. In the meantime, the Administration had introduced some measures to enhance the transparency of the schemes, which would facilitate parents to get necessary information to make informed choices of schools. The Administration would monitor the implementation of these measures, and with more information collection, consider the need for formulation of further improvement measures.

Financial management and internal control mechanism

18. Members noted the observation in the PAC Report that EDB's failure in setting a reserve ceiling for DSS schools was contrary to the requirement stipulated in Financial Circular No. 9/2004. Members urged the Administration to rectify the problem as early as practicable and set a reserve ceiling for surpluses kept by DSS schools. The Administration advised that the Working Group was reviewing issues related to the setting of a cap on and

the use of accumulated reserves of DSS schools and would make recommendations in this regard in its report.

19. Noting the Administration's plan to carry out audit inspections to 18 DSS schools every year with each DSS school undergoing such audit inspection on average once every four years, members suggested that audit inspections be conducted on all DSS schools in the first round, after which they could be conducted once every four years to facilitate early detection of problems.

20. The Administration advised that to enhance DSS schools' financial management, EDB had put in place a more systematic risk analysis mechanism whereby different risk aspects of DSS schools would be analysed for the purpose of selecting schools for audit inspections. Audit inspections would first be conducted on schools which had not undergone any inspection before or were assessed to have a higher risk profile such as schools with a large reserve or irregularities identified in their audited accounts. Nevertheless, the Administration undertook to consider members' suggestion subject to the availability of resources.

21. Some members queried the need for EDB to conduct audit inspections on DSS schools, given that DSS schools would submit annual audited accounts prepared by independent accountants which would also be audited by the Audit Commission. They considered it important for the Administration to maintain a proper balance between control and flexibility for DSS schools.

22. The Administration explained that the focus of the audit inspection conducted by EDB was different from the independent audit carried out by individual schools. The former would focus on procedural compliance such as compliance with the procedures for tendering, approval of expenditure and staff recruitment, while the latter would express an opinion on the accounts of the schools. Audit by the Audit Commission was not a regular exercise. A set of checklist would be developed to facilitate DSS schools to evaluate their own performance. The Administration recognised that setting up an effective internal monitoring mechanism was the key to the quality assurance of DSS schools in the long run and would refrain from micro-managing them. The Administration would intervene only when problems were identified.

Latest developments

23. The Working Group has completed the review on the administration of DSS as well as the governance and administration systems of DSS schools and submitted its report to the Secretary for Education in December 2011. The Administration will brief the Panel at the meeting on 20 April 2012 on measures

to improve the administration and governance of DSS schools recommended by the Working Group.

Relevant papers

24. A list of the relevant papers on the Legislative Council website is in **Appendix III**

Council Business Division 2
Legislative Council Secretariat
13 April 2012

Extract from

P.A.C. Report No. 55 – Chapter 1 of Part 8

*Administration of the Direct Subsidy Scheme and
Governance and Administration of Direct Subsidy Scheme Schools*

M. Conclusions and recommendations

160. The Committee:

- notes that:
 - (a) the Audit Commission ("Audit")'s value for money audit is on the Direct Subsidy Scheme ("DSS") administered by the Education Bureau ("EDB") and not on individual DSS schools *per se*;
 - (b) the audit is confined to the EDB's administration and supervision of the DSS and the governance and administrative matters of DSS schools, which do not include the quality of education provided by DSS schools; and
 - (c) in the early stage of the DSS, in order to encourage more schools to join the scheme, the Administration allowed some schools to join the DSS before they had been able to complete all the admission requirements, making it difficult for the EDB to deal with the

*Administration of the Direct Subsidy Scheme and
Governance and Administration of Direct Subsidy Scheme Schools*

problems that surfaced subsequently in requiring the schools to comply with certain admission conditions;

- considers that although the objective of the DSS is to inject diversity to Hong Kong's school system through the growth of a strong subsidised private school sector so that parents would have more choices, and DSS schools are allowed to have greater flexibility in various areas, the EDB has to perform a monitoring role to ensure that the schools comply with its requirements, and that their governance, accountability and transparency are up to the required standard and public expectation;
- expresses grave dismay and finds it unacceptable that the Secretary for Education has not been made aware of the widespread compliance problems in DSS schools and there is no dedicated high-level body in the EDB to oversee the administration of the DSS and the schools' compliance with the DSS requirements;
- expresses disappointment that:
 - (a) the EDB has failed to discharge its monitoring role over DSS schools effectively, as reflected by some serious cases of non-compliance with the EDB's guiding principles or requirements and its failure to take effective actions to ensure timely rectification of those problems. Details of the non-compliance are set out in the ensuing parts;
 - (b) the EDB has failed to attach sufficient importance to the gravity of the problems in the administration of DSS schools in that they were simply dealt with as operational issues without adequate appreciation of the need to bring them to the attention of the Secretary for Education for policy review; and
 - (c) before allowing some schools to join the DSS prior to completing all the admission requirements, the Administration had failed to consider the circumstances of individual schools which would make compliance with all the admission conditions difficult to achieve within a reasonable time;
- is surprised at and does not accept the Secretary for Education's statement that the EDB was toothless towards non-compliant DSS

*Administration of the Direct Subsidy Scheme and
Governance and Administration of Direct Subsidy Scheme Schools*

schools, given the administrative and punitive measures that EDB may take against them;

- expresses dismay that some DSS schools have not:
 - (a) set aside the required amounts of school fee income for the purpose of their fee remission/scholarship schemes; and
 - (b) clearly set out the eligibility criteria or adequately publicised the schemes, which might have discouraged needy parents from applying for their children's admission to DSS schools due to lack of information;
- acknowledges that for the purpose of enhancing and stepping up efforts to improve the governance of DSS schools, the Secretary for Education has tasked the Permanent Secretary for Education to consider a review of the governance framework, internal control and enforcement mechanism and financial management of DSS schools. A Working Group has been set up under the EDB with inputs from DSS schools and the academic sector as well as from relevant professionals experienced in governance, financial management and related areas to take forward the review and address the issues raised by the Committee and the Director of Audit;
- strongly urges the Secretary for Education to:
 - (a) enhance his supervision of the DSS and ensure that the EDB will perform its monitoring role over DSS schools more effectively;
 - (b) establish a dedicated high-level body in the EDB to oversee the administration of the DSS as well as its control and monitoring of DSS schools. Its duties should include conducting regular reviews of the EDB's control and monitoring mechanism, so as to enhance the governance and administration of DSS schools;
 - (c) put in place a system that requires the EDB staff to report, in appropriate cases, DSS schools' non-compliance and malpractices to sufficiently high-level staff, including the Permanent Secretary for Education and the Secretary for Education, for follow-up actions;

*Administration of the Direct Subsidy Scheme and
Governance and Administration of Direct Subsidy Scheme Schools*

- (d) require the Working Group to accord top priority to reviewing the EDB's control and monitoring mechanism instituted for DSS schools to ensure that it is sound and effective, so that non-compliance with the EDB's requirements and malpractices will be detected in a timely manner, rigorous actions will be taken to enforce compliance and rectification, and appropriate punitive measures commensurate with the gravity of the problems will be taken against the schools concerned. The Working Group should consult various stakeholders and the Panel on Education in the review; and
- (e) apart from requiring DSS schools to improve their fee remission/scholarship schemes, conduct a comprehensive review to explore effective measures to ensure that students from grassroots families will have a fair chance of studying in DSS schools, such as providing sufficient financial subsidy to needy students for meeting the necessary expenses of studying in such schools other than school fees, and consult the Panel on Education in the review;

Service agreement with school sponsoring body ("SSB")

- notes that up to mid-December 2010, the SSBs of Schools C, D and E that were required to enter into SSB Service Agreements with the EDB have still not entered into such agreements because they consider the school governance structure required under the draft SSB Service Agreement not consistent with that in their incorporation ordinances, and Schools C and E are also concerned about the clause in the School Management Committee ("SMC") Service Agreement that requires the transfer of government-funded assets to the Government upon termination of the SMC Service Agreement;
- expresses concern that some DSS schools which have entered into SSB Service Agreements have not complied with the terms of the agreements, as follows:
 - (a) although a DSS school should form an SMC before it commences operation, 18 DSS schools formed their SMCs after commencing operation. The delays ranged from two days to about nine years, with an average of three years;

*Administration of the Direct Subsidy Scheme and
Governance and Administration of Direct Subsidy Scheme Schools*

- (b) up to early June 2010, three DSS schools, which commenced operation in 2004-2005 to 2008-2009, had not incorporated their school governing bodies, and the requirement to acquire tax exemption status under the Inland Revenue Ordinance (Cap. 112) had also not been complied with;
 - (c) in three of the four DSS schools visited by Audit, no service agreement between the SSBs and the SMCs/Incorporated Management Committees ("IMCs") was signed, contrary to the requirement of the SSB Service Agreements;
 - (d) up to June 2010, one of the 15 schools examined by Audit, which commenced operation under the DSS in 2003-2004, had not submitted its school development plan to the EDB as required under the SSB Service Agreement signed;
 - (e) school development plans submitted by some DSS schools did not contain all the required information (e.g. school budget, academic goals for students, and criteria for student admission);
 - (f) two DSS schools had not obtained the EDB's prior approval for the improvement works carried out at their school premises, as required by the SSB Service Agreements; and
 - (g) of the 52 SSB Service Agreements signed, only 34 included a clause to provide the Director of Audit with the right of access to the records and accounts of the DSS schools;
- expresses concern that no record was kept by the EDB on the signing of service agreements between the SSBs and the SMCs/IMCs. Hence, the EDB was not able to ascertain if this requirement has been complied with;
 - acknowledges that:
 - (a) the Secretary for Education has agreed with the audit recommendations in paragraphs 3.13, 3.29 and 3.33 of Chapter 1 of the Director of Audit's Report ("Audit Report");

*Administration of the Direct Subsidy Scheme and
Governance and Administration of Direct Subsidy Scheme Schools*

- (b) the EDB has agreed to revise the draft SSB Service Agreement for Schools C, D and E to allow them to be managed and operated under their original governing framework. The EDB also intends to refine the clause in the SMC Service Agreement for Schools C and E on the transfer of assets to the Government upon the termination of the SMC Service Agreement;
 - (c) as at the end of November 2010, of the three school governing bodies that had not yet acquired tax exemption status, two had acquired the status with effect from 7 June 2010 and 9 November 2010 respectively, and the remaining one was in the process of acquiring the status; and
 - (d) in the EDB Circular No. 12/2010 issued in November 2010, the EDB has required all DSS schools to keep proper administrative and financial records and provide them for examination by the Director of Audit when required;
- urges the Secretary for Education to:
- (a) resolve the conflicts with Schools C, D and E over the terms and conditions of the draft SSB Service Agreement and the SMC Service Agreement as soon as possible to ensure that they will duly enter into the SSB Service Agreements; and
 - (b) take effective measures to ensure early rectification of the non-compliance with the terms of the SSB Service Agreements identified by Audit;

Service agreement with incorporated school governing body

- expresses concern that:
- (a) although 53 DSS schools were required to enter into SMC/IMC Service Agreements with the EDB by June 2010, as at 30 June 2010, 13 of them had not signed the agreements (with three signed in July and August 2010);
 - (b) the composition of some IMCs and SMCs do not comply with the requirements stipulated in the Education Ordinance (Cap. 279) and the SMC Service Agreements respectively; and

*Administration of the Direct Subsidy Scheme and
Governance and Administration of Direct Subsidy Scheme Schools*

- (c) as at 30 June 2010, eight DSS schools had not signed tenancy agreements with the EDB, although they had been outstanding for about four to 10 years (with one signed in July 2010);
- notes that for the 14 IMCs that do not have an alumni manager (referred to in paragraph 4.13(a)(v) of Chapter 1 of the Audit Report), the history of the schools is relatively short and hence either their alumni associations have not been formed or their graduates are too young to serve as managers;
 - acknowledges that the Secretary for Education has agreed with the audit recommendations in paragraphs 4.7, 4.15 and 4.22 of Chapter 1 of the Audit Report;
 - urges the Secretary for Education to accord a high priority to implementing the above audit recommendations, taking into consideration the special circumstances of the schools concerned;

School fee remission/scholarship schemes

- notes that DSS schools are required to adopt a fee remission/scholarship scheme in order that students will not be deprived of the chance to study at DSS schools solely because of their inability to pay school fees;
- finds it totally unacceptable that the EDB has failed to discharge its duty to monitor DSS schools' compliance with its requirements on the amounts of school fee income that should be set aside for the purpose of their fee remission/scholarship schemes, as well as those on the publicity, implementation and eligibility criteria of the schemes, and that the Secretary for Education and the Permanent Secretary for Education are not aware of the non-compliance, as set out below:
 - (a) contrary to the EDB's requirement, the fee remission/scholarship schemes of five DSS schools were not funded from school fee income. According to Audit's assessment, the amounts of school fees set aside by 22 DSS schools for the purpose of their fee remission/scholarship schemes were less than the levels required;
 - (b) even by applying the EDB's practical approach, six schools are still found to have under-provision under the fee remission/scholarship schemes. Of these six schools, three did not set aside the required

*Administration of the Direct Subsidy Scheme and
Governance and Administration of Direct Subsidy Scheme Schools*

amounts for three consecutive years in 2006-2007, 2007-2008 and 2008-2009, and one of them has not heeded the EDB's repeated advice since September 2005 for rectification;

- (c) according to the EDB's practice, the above cases of non-compliance, which were discovered by the EDB's Finance Division through checking of the schools' audited accounts, were only referred to the EDB's regional education offices for follow-up without bringing up to attention of the Permanent Secretary for Education and the Secretary for Education;
 - (d) contrary to the EDB's requirement, two of the four DSS schools visited by Audit have not mentioned their fee remission/scholarship schemes in their prospectuses. Two other DSS schools have not provided full details of their schemes (e.g. the eligibility criteria and the maximum percentage of fee remission) in their prospectuses. As such, some parents may be unaware of the schools' fee remission/scholarship schemes; and
 - (e) only 23 DSS schools have provided details of their fee remission schemes on their school websites. The eligibility criteria adopted by two of these 23 DSS schools for their fee remission schemes are less favourable than the government financial assistance schemes to students;
- expresses dismay that in 14 DSS schools, the utilisation of their fee remission/scholarship schemes was 50% or less;
 - expresses dismay that under the existing policy of the Comprehensive Social Security Assistance ("CSSA") Scheme, no special grant for school fees would normally be given under the CSSA Scheme to students who choose to attend DSS schools, and this may deprive students from families in receipt of CSSA ("CSSA students") of the chance to study at DSS schools;
 - acknowledges that:
 - (a) the Secretary for Education has agreed with the audit recommendations in paragraphs 3.9 and 3.17 of Chapter 2 of the Audit Report;

*Administration of the Direct Subsidy Scheme and
Governance and Administration of Direct Subsidy Scheme Schools*

- (b) to avoid misunderstanding arising from different interpretations of the requirements for fee remission/scholarship scheme, the EDB has undertaken to refine the guidelines with a view to clarifying and standardising the practice;
 - (c) the Working Group set up by the EDB will also study possible measures to enhance the transparency and efficacy of the fee remission/scholarship schemes in DSS schools in order to help ensure that students from low-income families will not be deprived of access to DSS schools due to inadequate means; and
 - (d) in all DSS schools, CSSA students are eligible for the schools' fee remission/scholarship schemes, and all the schools adopt the same admission policy in respect of CSSA students and non-CSSA students;
- strongly urges the Secretary for Education to:
 - (a) step up the EDB's monitoring of DSS schools' compliance with its requirements on fee remission/scholarship schemes and to enhance public awareness of the schemes, so that parents can take them into account when considering whether to apply for their children's admission to DSS schools; and
 - (b) take measures to ensure that DSS schools will not discriminate against CSSA students in administering their fee remission/scholarship schemes;
 - strongly urges the Secretary for Labour and Welfare to revise the existing CSSA policy so that special grant for school fees will be given under the CSSA Scheme to students who choose to attend DSS schools;

Revision of school fees

- is surprised and expresses serious concern that:
 - (a) in one of the six approved applications for school fee increase in 2009-2010, supporting documents were not provided by the school to show that it had obtained the required consent from the majority of the parents;

*Administration of the Direct Subsidy Scheme and
Governance and Administration of Direct Subsidy Scheme Schools*

- (b) of the 30 approved applications for fee increases in 2008-2009, 26 DSS schools had underestimated their projected accumulated operating reserves by the end of 2008-2009; and
 - (c) DSS schools are given flexibility in using their operating reserves of non-government funds to finance large-scale capital works and maintenance works of above-standard facilities, such as construction of additional floors and swimming pools. The charging of such expenditure to the schools' operating reserves may be a justification for applying for substantial school fee increase, which in turn may create additional financial burden on parents;
- acknowledges that:
- (a) the Secretary for Education has agreed with the audit recommendations in paragraphs 4.7 and 4.14 of Chapter 2 of the Audit Report; and
 - (b) the EDB will discuss with DSS schools the need for setting aside separate reserves with designated account for large-scale capital works and their related maintenance, and set out the factors that the schools should consider when planning large-scale capital works, including parents' affordability;
- urges the Secretary for Education to:
- (a) require DSS schools to provide all parents with information on the schools' financial status when they consult parents on their proposal to apply for school fee increase;
 - (b) take effective measures to ensure that the financial projections made by DSS schools in their applications for increasing school fees are fair and reasonable; and
 - (c) accord a high priority to exploring measures to ensure that the planning and undertaking of large-scale capital works by DSS schools will not cause undue impact on their level of school fee and parents' affordability;

*Administration of the Direct Subsidy Scheme and
Governance and Administration of Direct Subsidy Scheme Schools*

Financial management

- expresses astonishment that, of the four DSS schools visited by Audit:
 - (a) one school used non-government funds to purchase three properties. The properties were held under a purported trust arrangement which was considered improper by the EDB; and
 - (b) contrary to the EDB's guidelines, another school invested part of its surplus funds in financial instruments (e.g. local equities and investment funds) instead of placing them in time deposits and savings accounts;
- expresses serious concern over the following cases of non-compliance with the EDB's rules on the financial management of DSS schools, and that the EDB has failed to detect the non-compliance and, in some cases, to take effective actions to ensure rectification of the non-compliance:
 - (a) the EDB has not set a reserve ceiling for DSS schools, contrary to the requirement stipulated in Financial Circular No. 9/2004;
 - (b) as at 31 August 2008, the accumulated operating reserves of 13 DSS schools exceeded the level equivalent to a full year's operating expenses. However, one of them has refused to submit a development plan, setting out how its accumulated operating reserve would be used for school development, to the EDB as required;
 - (c) the 2007-2008 audited accounts of DSS schools indicated that six schools had not followed the EDB's requirement on maintaining accumulated operating reserves sufficient to meet at least two months' operating expenses. As at 31 August 2009, the accumulated operating reserves of two of the schools were still below the required level;
 - (d) as at 30 September 2008, 162 non-local students were admitted by 17 DSS schools. Given that local and non-local students at these schools paid the same level of school fees, and the schools maintained no separate accounts for the non-local students, it is possible that their non-local students had been cross-subsidised by the DSS subsidy for the local students; and

*Administration of the Direct Subsidy Scheme and
Governance and Administration of Direct Subsidy Scheme Schools*

- (e) the external auditors of 18 DSS schools did not state in their reports on the schools' accounts that the schools had used government subsidies in accordance with the rules promulgated by the EDB for the DSS;
- acknowledges that:
 - (a) the Secretary for Education has agreed with the audit recommendations in paragraphs 5.8, 5.13, 5.17, 5.22, 5.28, 5.32, 5.36, 5.44, 5.48, 5.52 and 5.60 of Chapter 2 of the Audit Report;
 - (b) the Secretary for Financial Services and the Treasury has agreed with the audit recommendations in paragraphs 5.8, 5.17 and 5.22 of Chapter 2 of the Audit Report;
 - (c) the Supervisor of the school which had used non-government funds to purchase three properties has informed the EDB that the SMC had accepted the legal advice to apply to court for a vesting order to transfer the three properties to the SMC;
 - (d) the EDB will request DSS schools to make detailed disclosure on purchase of properties in their accounts from 2009-2010 onwards; and
 - (e) in the EDB Circular No. 12/2010 issued in November 2010, the EDB has provided guidelines to DSS schools on devising a school-based mechanism on investment by using non-government funds;
- urges the Secretary for Education to:
 - (a) closely monitor the progress made by the school concerned in transferring the three properties to the SMC to ensure that the transfer would be completed without delay;
 - (b) put in place measures to enhance the internal control of DSS schools and take effective intervention measures to ensure timely rectification of identified cases of non-compliance;
 - (c) consider devising a self-assessment system for DSS schools to declare if they have complied with the various financial

*Administration of the Direct Subsidy Scheme and
Governance and Administration of Direct Subsidy Scheme Schools*

management requirements of the EDB and request the schools to document the justifications for not complying with the requirements; and

- (d) provide more training for staff of DSS schools to familiarise them with the EDB's various requirements in financial management to help ensure compliance;

Admission process

- expresses serious concern that:
 - (a) in five admission cases, the assessment on the applicant schools' track records of performance was not based on up-to-date and relevant information;
 - (b) as at June 2010, the profit-making status of five DSS schools (four admitted to the DSS in 1999-2000 and one in 2000-2001) still remained unchanged, although they were required to complete the procedures in acquiring a non-profit-making status within one year after admission; and
 - (c) as at June 2010, two schools (conditionally admitted to the DSS in 1999-2000) that were required to secure their own school premises by the end of 2004-2005 were still operating in leased premises;
- acknowledges that:
 - (a) the Secretary for Education has agreed with the audit recommendations in paragraphs 2.6 and 2.15 of Chapter 1 of the Audit Report; and
 - (b) all schools joining the DSS from 2007 onwards are required to meet all the DSS admission conditions upon admission to the DSS;
- urges the Secretary for Education to:
 - (a) sort out immediately the remaining issues concerning the Deed of Novation and Assignment with the five DSS schools to facilitate their completion of the procedures for acquiring non-profit-making status; and

*Administration of the Direct Subsidy Scheme and
Governance and Administration of Direct Subsidy Scheme Schools*

- (b) strictly enforce the rule to require all schools joining the DSS to meet all the relevant requirements immediately upon their admission to the DSS;

Monitoring school performance

- expresses concern at the following:
 - (a) the paucity of audits carried out on DSS schools each year, which ranged from two to eight during 2005 to 2009, and of the School Audit Section's staff deployed for undertaking duties relating to audits of DSS schools and follow-up work, which ranged from 0.4 to 1.7 in the same period;
 - (b) the EDB's selection of schools for audit has not been based on a systematic risk analysis mechanism;
 - (c) there has been delay in issuing school audit reports to 11 schools, with two schools over 200 days;
 - (d) no follow-up school audit has been carried out even though glaring malpractices have been identified during school audits;
 - (e) only five (25%) of the 20 DSS schools examined by Audit have uploaded their school plans and reports to their websites as required by the EDB;
 - (f) some school reports uploaded by DSS schools to their websites do not provide the required information (such as financial summary, student performance and feedback on future planning); and
 - (g) two DSS schools have been excluded from the External School Review simply because they were either offering a non-local curriculum or only sixth form classes;
- acknowledges that:
 - (a) the Secretary for Education has agreed with the audit recommendations in paragraphs 5.13, 5.23 and 5.29 of Chapter 1 of the Audit Report; and

*Administration of the Direct Subsidy Scheme and
Governance and Administration of Direct Subsidy Scheme Schools*

- (b) the EDB plans to increase the number of school audits to 12 in 2010-2011;
- urges the Secretary for Education to deploy sufficient manpower resources to carry out more audits on DSS schools, so as to ensure that the schools use government and school funds properly;

Direct Subsidy Scheme subsidy

- expresses dissatisfaction and finds it unacceptable that:
 - (a) the then Education and Manpower Bureau did not always provide the Legislative Council ("LegCo") with full and accurate information about the changes in measures introduced to the DSS;
 - (b) the then Education and Manpower Bureau did not seek approval from the LegCo's Finance Committee ("FC") for the introduction of the two-tier system, although it had financial implication to the Government; and
 - (c) the then Education and Manpower Bureau did not inform the FC that exception had been given to a school to ensure that it would continue to receive the old DSS subsidy rate after the two-tier system was introduced;
- acknowledges that the Secretary for Financial Services and the Treasury has agreed with the general principles in the audit recommendations in paragraph 6.15 of Chapter 1 of the Audit Report;
- urges the Secretary for Education to ensure that accurate and complete information is always provided to the LegCo;

International schools in the Direct Subsidy Scheme

- expresses dissatisfaction and finds it unacceptable that:
 - (a) the then Education and Manpower Branch did not inform the FC that School I, which had agreed in 1991 to meet its full operating cost, would be given recurrent subsidy upon its admission to the DSS in 1994; and

*Administration of the Direct Subsidy Scheme and
Governance and Administration of Direct Subsidy Scheme Schools*

- (b) despite the decision of the Executive Council ("ExCo") that international schools should no longer be eligible for admission to the DSS and those already in the scheme should be phased out gradually, in the Memorandum submitted by the Administration to the ExCo, the then Education and Manpower Branch did not include School I in the list of international schools to be phased out and the records of the then Education Department could not explain why School I should not be phased out;
- acknowledges that the Working Group set up by the EDB will critically review the justifications for continuing to allow School I to remain in the DSS;
- urges the Secretary for Education to:
 - (a) proactively keep the LegCo informed when there are major changes to the information previously provided to the LegCo;
 - (b) ensure that complete information is always provided to the ExCo; and
 - (c) having regard to the results of the Working Group's review on the justifications for continuing to allow School I to remain in the DSS, take appropriate measures to address the matter as necessary;

Human resource management

- expresses serious concern that, of the four DSS schools visited by Audit:
 - (a) three schools did not carry out open recruitment for some staff recruited in 2007-2008 to 2009-2010;
 - (b) two schools did not follow the EDB's requirements of reporting the results of their staff recruitments to their governing bodies in 2008-2009 and 2009-2010;
 - (c) one school has not set up a mechanism for determining the remuneration packages for its non-teaching staff as required by the EDB;

*Administration of the Direct Subsidy Scheme and
Governance and Administration of Direct Subsidy Scheme Schools*

- (d) one school did not have a formal staff performance management system in place. In another school, performance appraisal was carried out only for some staff. In the third school, six staff appraisal reports were not available for examination by Audit. In the remaining school, the appraisers were not required to record the justifications of their assessments; and
- (e) in one school, the decisions of the SMC on contract renewal of staff members were not based on performance appraisals;
- acknowledges that the Secretary for Education has agreed with the audit recommendations in paragraphs 6.12, 6.17, 6.21 and 6.25 of Chapter 2 of the Audit Report;
- urges the Secretary for Education to:
 - (a) provide more training for staff of DSS schools to familiarise them with the EDB's various requirements in human resource management to help strengthen the schools' internal control mechanism; and
 - (b) consider requiring DSS schools to declare if they have complied with the EDB's requirements in human resource management matters and document the justifications for not following the requirements;

General administration

- expresses serious concern that, of the four DSS schools visited by Audit:
 - (a) three schools have not sought prior approval from the EDB for some trading operations carried out by them; and
 - (b) two schools have accepted donations from trading operators without any documented compelling reasons, and made no disclosure in the school reports;
- expresses concern that, of the four DSS schools visited by Audit:
 - (a) one school has not laid down any formal procurement policy and procedure. In another school, the procurement procedures for

*Administration of the Direct Subsidy Scheme and
Governance and Administration of Direct Subsidy Scheme Schools*

making procurement with non-government funds are less stringent than those of the EDB's guidelines for aided school. No record is available showing that the adoption of the less stringent procedures has been approved by the SMC and made known to the stakeholders of the school;

- (b) in three schools, no record is available showing that the staff involved in purchasing and supplies duties has signed the required undertaking that they would declare to the school governing body any current or future connections they or their immediate families have/will have with the suppliers;
 - (c) the profit of some of the items sold by three schools has exceeded the 15% profit ceiling set by the EDB; and
 - (d) no tender/quotation exercise has been carried out by one school for the selection of the tuckshop operator, and by another school for the selection of operators/suppliers for operating the school tuckshop, the provision of school bus service and the supply of lunch boxes;
- acknowledges that the Secretary for Education has agreed with the audit recommendations in paragraphs 7.12 and 7.23 of Chapter 2 of the Audit Report;
 - urges the Secretary for Education to expeditiously implement the above audit recommendations;

Other governance issues

- expresses concern that:
 - (a) the composition of the school governing bodies of six DSS schools (incorporated under their respective incorporation ordinances) does not include representatives of parents and teachers as school managers, which is not in line with modern corporate governance practices;
 - (b) there is no requirement to disclose to the public the particulars of school managers (name, tenure of office and category of each manager) of SSBs other than the IMCs; and

*Administration of the Direct Subsidy Scheme and
Governance and Administration of Direct Subsidy Scheme Schools*

- (c) of the four DSS schools visited by Audit:
- (i) the attendance rates of some school managers at the school governing body meetings held by two schools were low;
 - (ii) a quorum was not present at some school governing body meetings held by two schools; and
 - (iii) all the four schools did not comply fully with the requirements stipulated in the EDB's guidelines and the Education Ordinance on managing conflict of interests;
- acknowledges that the Secretary for Education has agreed with the audit recommendations in paragraphs 2.8, 2.15, 2.23 and 2.28 of Chapter 2 of the Audit Report;
 - urges the Secretary for Education to expeditiously implement the above audit recommendations; and

Follow-up actions

- wishes to be kept informed of:
 - (a) the progress made by the Working Group in reviewing the governance framework, internal control and enforcement mechanism and financial management of DSS schools; and
 - (b) the progress made in implementing the various recommendations made by the Committee and Audit.

**Major suggestions made by Members in the Motion Debate on Chapter 1 of Part 8 of “Public Accounts Committee’s Report No. 55
‘Administration of the Direct Subsidy Scheme and Governance and Administration of Direct Subsidy Scheme Schools’”
at the Meeting of the Legislative Council on 2 March 2011**

Members’ Suggestions	Administration’s Responses
I. School Fee Remission/Scholarship Schemes	
<p>1. As school fee remission schemes/scholarship schemes are not adequately publicised, needy parents may be discouraged from enrolling their children in Direct Subsidy Scheme (DSS) schools due to a lack of information. Thus, the upward mobility of children from low-income families may be hampered. The Administration and schools should step up publicity of such schemes and set out clearly the criteria for financial assistance.</p>	<p>1.1 All DSS schools have included the details of the fee remission/scholarship schemes in their prospectuses and uploaded the information onto their websites in compliance with the requirements as stipulated in the EDB Circular No. 12/2010 on “Use of Non-government Funds in Direct Subsidy Scheme (DSS) Schools”.</p> <p>1.2 In addition, the Working Group on DSS chaired by the Permanent Secretary for Education has started discussion on how to improve the implementation of the school fee remission/scholarship schemes in DSS schools. The Working Group holds the view that enhancing the transparency of the school fee remission/scholarship schemes could help parents understand the schemes and facilitate an informed assessment of their children’s eligibility for remission/scholarship. Insofar as parents of prospective students are concerned, this could in turn help them make an informed choice of schools for their children. These measures should be put in place at the earliest opportunity. To this effect, we have issued a circular in early July 2011 setting out the following new measures to be implemented:</p> <p>(i) DSS schools are required to consult their School</p>

Members' Suggestions	Administration's Responses
	<p>Management Committees (SMCs) / Incorporated Management Committees (IMCs) or parent-teacher associations on the operation of their school fee remission/scholarship schemes and how the related information should be presented to ensure that it can be easily understood by parents and prospective parents of the school;</p> <p>(ii) DSS schools are required to clearly indicate in the application form for admission and the School Profile published by the Committee on Home-School Co-operation that needy students, including those from families receiving the CSSA and students receiving financial assistance provided by the Student Financial Assistance Agency (SFAA), could apply for fee remission. DSS schools are also required to provide details of their school fee remission/scholarship schemes on the application form and a hyper-link in the School Profiles through which details of the school fee remission/scholarship schemes can be obtained on the school's website;</p> <p>(iii) DSS schools are required to provide details of the school fee remission/scholarship schemes to all students newly admitted to the school by enclosing such details with the letter offering admission;</p>

Members' Suggestions	Administration's Responses
	<p>(iv) Subject to the availability of funds under the fee remission/scholarship schemes, in principle, DSS schools are required to offer fee remission to students from families receiving the CSSA and those SFAA recipients. This should be clearly set out in the details of the school fee remission/scholarship schemes for information of parents/prospective parents;</p> <p>(v) When notifying students of the application results for SFAA, DSS schools are required to provide an application form for the school fee remission/scholarship schemes to each of the eligible students as well;</p> <p>(vi) DSS schools should process applications for the school fee remission/scholarship schemes from newly admitted students before the new school year begins as far as possible so that those eligible students will not be required to pay the school fee in advance. Likewise, if applications are received during the school year, they should be processed as early as possible;</p> <p>(vii) DSS schools are encouraged to provide a simulation test for fee remission on their websites so that parents will know in advance the level of fee remission their children will be</p>

Members' Suggestions		Administration's Responses
		<p>granted. This will facilitate decision on school choice and/or whether to apply for remission; and</p> <p>(viii) The EDB will provide on its website hotlinks to the school fee remission/scholarship schemes of individual DSS schools to facilitate interested parents to get the information they need easily.</p>
2.	<p>The Administration should consider effective measures to ensure that DSS schools set aside the required amounts of school fee income for fee remission/scholarship schemes. The scholarship application and award procedures should also be monitored to ensure that needy students will not be deprived of the opportunity of attending DSS schools because of a lack of means.</p>	<p>2.1 The EDB issued a circular memorandum on 17 January 2011 requiring DSS schools to provide detailed information on their fee remission/scholarship schemes in their 2009/10 audited accounts submitted this year, and school auditors to verify in their reports whether the amounts set aside by schools for fee remission and scholarship schemes meet the EDB's requirement. Review of the audited accounts submitted by DSS schools is underway.</p> <p>2.2 Regarding the improvement measures for the school fee remission/scholarship schemes, details are set out in the Administration's responses to Item 1 above. The Working Group on DSS will continue to gauge the views of DSS schools about other improvement measures for the school fee remission/scholarship schemes.</p>
3.	<p>DSS schools should relax the asset limits for families applying for school fee remission to enable more needy students to attend such schools. If the utilization of the reserve for school fee remission and scholarships is persistently low and a surplus is recorded, a school should consider using the surplus to help students, for example, by relaxing the application criteria for</p>	<p>3.1 EDB Circular No. 12/2010 on "Use of Non-government Funds in Direct Subsidy Scheme (DSS) Schools" stipulates that when the reserve for scholarships/financial assistance has reached a cumulative amount which exceeds a school's half-year total fee income, the school should forward to the EDB a plan on how this specific reserve can be</p>

Members' Suggestions		Administration's Responses
	<p>school fee remission or funding students' extra-curricular activities. It may also consider lowering the school fees.</p>	<p>effectively deployed. Acceptable options or uses of the excessive reserve include but are not limited to: (i) relaxing the criteria for awarding fee remission/scholarship; (ii) reducing the school fees; (iii) subsidising eligible students in their purchase of textbooks/reference books/stationery; and (iv) sponsoring eligible students for joining extra-curricular activities, such as overseas educational visits and exchange study programmes, etc.;</p> <p>3.2 Schools with persistently under-utilised reserves have been requested to look into the causes of the low utilisation of their fee remission/scholarship schemes and to make improvement where appropriate. The schools have responded positively, and all the 14 schools with low-utilisation rates have relaxed the application criteria of their schemes to benefit more students.</p>
4.	<p>DSS schools should vet the eligibility of prospective students for scholarships/grants before admission so that these students can decide whether to attend the schools based on the availability of financial assistance.</p>	<p>4.1 Regarding the enhanced transparency of the fee remission/scholarship schemes in DSS schools, the EDB has issued a circular in early July 2011, informing DSS schools of the new improvement measures. Details are set out in the Administration's response to Item 1 above. These measures can enable parents and students to learn more about the fee remission/scholarship schemes, including the assistance level, before making informed decisions on whether to enrol in DSS schools.</p>
II. Admission		
1.	<p>A mechanism should be put in place to set aside at least 10% of DSS school places for central allocation so that students from</p>	<p>1.1 DSS schools have been drawing up their school-based</p>

Members' Suggestions	Administration's Responses
<p>different strata will have a fair opportunity to be allocated such places. Needy students allocated places in DSS schools should be provided with full subsidy for school fees and expenses of activities during their study to enable them to learn in a stable environment and to ensure that students who are capable academically will not be deprived of an opportunity to attend DSS schools due to financial difficulties.</p>	<p>admission criteria according to their own circumstances. Not only is this a key flexibility given to DSS schools when the DSS policy was formulated, it is also one of the most distinguished features of DSS schools. The EDB has already required DSS schools to establish reasonable and professionally sound criteria for admission of students and observe the principles of openness and fairness in drawing up those criteria.</p> <p>1.2 The Working Group on DSS has discussed various measures to better ensure that students will not be deprived of a chance to study in DSS schools solely due to a lack of means. The Working Group will put forward its views in the report to be submitted to the Secretary for Education by the end of 2011 including improvement measures outlined in points 1 to 4 under Part I above.</p>
<p>2. Under the prevailing policy, normally no special grant for school fees will be provided to CSSA students attending DSS schools. The existing CSSA policy should be reviewed as soon as possible to ensure that no CSSA students will be deprived of the opportunity to attend DSS schools because they cannot afford the school fees.</p>	<p>2.1 The CSSA Scheme is a safety net of last resort to meet the basic needs of those who cannot support themselves financially. As free education is provided by the Government for primary and secondary students attending Government or aided schools, normally no special grant for school fees will be provided under the CSSA scheme to students who choose to attend DSS schools. Notwithstanding the above, where the students have been attending DSS schools before receiving CSSA, the Social Welfare Department will give them sufficient time to make suitable arrangements. Normally, they will be given a special grant for school fees up to the end of the current school year; in the interim, the students can apply for fee remission from their DSS schools like other needy students, or apply for transition to a Government or aided school in the next school year. A special grant</p>

Members' Suggestions		Administration's Responses
		<p>for school fees may be given to students attending Primary 5 and 6 for them to complete primary education, and to those attending Secondary 5 and 6 for them to complete secondary education.</p> <p>2.2 Regarding improvement measures for the school fee remission/scholarship schemes, please see points 1 to 4 under Part I above.</p>
III. Fee revision		
1.	<p>A ceiling should be set on the fees charged by DSS schools. At present, a DSS school will receive full recurrent subsidy from the Government until its fee level reaches 2 1/3 of the average unit cost of an aided school place. The mode of subsidy should be changed so that the subsidy rate will be reduced proportionately if the fees charged by a school exceed a certain reasonable level. This can encourage schools to charge lower fees, and prevent a widening gap of resources between schools due to continuous fee increases.</p>	<p>1.1 DSS schools may seek the EDB's approval for collecting school fees from students for providing additional and above-standard facilities and support services for students so as to develop their unique features. This is in line with the objective of introducing the DSS, i.e. to inject diversity to the school system in Hong Kong. The Working Group on DSS will consider, among other things, the current method of calculating the DSS subsidy unit rates and the related issue of mechanisms to help forestall unjustifiably high school fees, and will put forward its views in the report to be submitted to the Secretary for Education by the end of 2011.</p>
2.	<p>Fee increases by DSS schools should be controlled to forbid schools from increasing their fees drastically. Parent representatives should have more opportunities to participate in fee revision matters.</p>	<p>2.1 At present, DSS schools are required to submit their budgets and justifications when applying for fee increases. If a drastic increase in school fees is applied for, the school concerned will also be required to first consult all parents and obtain the approval of the majority of them. When processing an application, the EDB will take into account the school's income and expenditure, budget, justifications and outcome</p>

Members' Suggestions	Administration's Responses
	<p>of consultation with parents to ensure that the application is fully justified and supported by parents.</p> <p>2.2 To enhance the transparency of fee increases by DSS schools, as from this year, the EDB has introduced a series of measures to improve the school fee revision mechanism of DSS schools. First, the EDB has explicitly required DSS schools to provide parents, in the consultation process, with appropriate financial information of the schools, including the accumulated surplus, justifications for fee increase and additional resources required. Second, if planning or undertaking large-scale capital works projects is one of the major reasons for fee increase, schools will be required to explain in detail the purpose, scale, construction period and cash flow of the project in order to avoid causing unnecessary pressure on the level of school fees. Third, DSS schools are required to submit to EDB how parents are consulted and parents' feedback so as to facilitate the EDB's consideration of their applications for fee revision.</p>
<p>3. The EDB should review the financial condition of each DSS school. DSS schools that have large financial reserves but do not have long term development plans should consider lowering their fees or set aside a large portion of their reserves for scholarships.</p>	<p>3.1 In EDB Circular No. 12/2010 on "Use of Non-government Funds in Direct Subsidy Scheme (DSS) Schools", the EDB has reminded DSS schools that when they have accumulated an excessive surplus, provided that there would be no adverse impact on the schools' finance, they should consider the feasibility of reducing their schools fees so that parents and students can benefit directly and immediately.</p> <p>3.2 Under the prevailing mechanism, DSS schools are required to disclose their accumulated reserves under government fund and non-government fund accounts. If the accumulated operating reserves</p>

Members' Suggestions	Administration's Responses
	<p>of a school are found to exceed the annual total expenditure, the EDB will issue a letter to the school, requesting a development plan that explains how the surplus will be used for school development. The EDB will also follow up the implementation of the plan.</p> <p>3.3 In addition, the Working Group on DSS is considering measures to improve various financial practices such as whether there should be a cap on the accumulated reserves that DSS schools can keep, and the use of accumulated reserves. The Working Group will continue to gauge the views of the DSS schools before submission of its report to the Secretary for Education by the end of 2011.</p>
IV. Governance, administration and financial management of DSS schools	
<p>1. The existing regulatory mechanism for DSS schools should be improved. The transparency and accountability of school operation should be enhanced, and tougher follow-up action should be taken against schools that fail to improve despite repeated advice. Clear guidelines on DSS schools' administration, especially financial management and control, should be provided.</p>	<p>1.1 At present, if the management of a school is found to be unsatisfactory, the EDB will take appropriate follow-up action such as issuing advisory or warning letters and appointing school managers to the SMC/IMC. If the non-compliance is serious and persists after the EDB has taken the above actions, the EDB, in the interests of students, may consider withdrawing the subsidy payable to the school with a resultant loss of DSS status.</p> <p>1.2 To help DSS schools exercise their flexibility in deploying resources properly, the EDB has provided them with guidelines, including EDB Circular No. 4/2010 on "Use of Government Funds in Direct Subsidy Scheme (DSS) Schools" and EDB Circular No. 12/2010 on "Use of Non-government Funds in Direct Subsidy Scheme (DSS) Schools". The EDB will continue to improve the guidelines to make</p>

Members' Suggestions	Administration's Responses
	<p>them more specific and comprehensive.</p> <p>1.3 As a measure to enhance the existing monitoring mechanism for DSS schools, the EDB has put in place a systematic risk analysis mechanism that analyses various risks faced by schools for selecting schools for audit inspections with a view to strengthening the monitoring of the use of funds by DSS schools.</p> <p>1.4 In addition, the Working Group on DSS has started discussion on ways to enhance the transparency and accountability of DSS schools' operation, particularly in respect of financial management and internal control, with a view to enabling schools to conduct self-monitoring and to make continuous improvement. The Working Group deliberation will also cover ways to improve the EDB's prevailing mechanism for handling non-compliance cases to enable the EDB to deal with such cases more effectively.</p> <p>1.5 The Working Group will continue to gauge the views of DSS schools before submission of its recommendations to the Secretary for Education by the end of 2011.</p>
<p>2. A ceiling should be set on the reserves of DSS schools. Any amount exceeding the ceiling should be returned to the Government or directly spent on teaching. Setting such a ceiling can provide room for lowering school fees.</p>	<p>2.1 Under the prevailing mechanism, DSS schools are required to disclose their accumulated reserves under government fund and non-government fund accounts. If the accumulated operating reserves of a school are found to exceed the annual total expenditure, the EDB will issue a letter to the school, requesting a development plan that explains how the surplus will be used for school development. The EDB will also follow up the implementation of the plan.</p>

Members' Suggestions	Administration's Responses
	<p>2.2 The Working Group on DSS has started discussion on the need to set a ceiling on the accumulated operating reserves of DSS schools to prevent the accumulation of an excessive surplus. The Working Group will continue to gauge the views of DSS schools and put forward its recommendations in the report to be submitted to the Secretary for Education by the end of 2011.</p>
<p>3. To prevent unreasonable fee increases, the use of school fees by DSS schools should be regulated. All school fees charged by DSS schools should be spent directly on students and teaching but not other uses, such as expanding school premises. Expansion of school premises should be financed by sources other than school fees to avoid putting upward pressure on school fees.</p>	<p>3.1 DSS schools may seek the EDB's approval for collecting school fees from students to provide additional and above-standard facilities and support measures, including improving the school facilities and environment, for their students in order to develop their unique features. This is in line with the objective of introducing the DSS, i.e. to inject diversity to the school system in Hong Kong.</p> <p>3.2 The EDB is of the view that the existing mechanism for processing applications for fee increases serves to ensure that DSS schools will not increase their fees significantly without justification. At present, DSS schools are required to submit their budgets and justifications when applying for fee increases. If a drastic increase in school fees is applied for, the school concerned will also be required to first consult all parents and obtain the approval of the majority of them. When processing an application, the EDB will take into account the school's income and expenditure, budget, justifications and outcome of consultation with parents to ensure that the application is fully justified and supported by parents.</p> <p>3.3 In addition, as a measure to enhance the transparency of DSS schools, starting from this year, if planning or undertaking large-scale</p>

Members' Suggestions		Administration's Responses
		capital works projects is one of the major reasons for fee increase, the school concerned will be required to explain in detail the purpose, scale, construction period and cash flow of the project when consulting parents in order to avoid causing unnecessary pressure on the level of school fees.
4.	Only a reasonable percentage of school fees charged by DSS schools should be reserved for long-term development. Schools fees should neither be used entirely for development, nor be increased before there is any development goal.	4.1 Regarding the use of school fees and the prevailing fee revision mechanism in DSS schools, details are set out in the Administration's responses to Item 3 above. The Working Group will continue to deliberate the relationship between the reserve set aside for long-term development and school fees, and will continue to gauge the views of DSS schools before submitting its recommendations to the Secretary for Education by the end of 2011.
5.	The number of officers providing support for the administration and development of DSS schools is very small. There are 153 officers in the Regional Education Offices (REOs) under the EDB providing support for the administration and development of all schools. However, only 5.4 of them were involved in the operation of DSS schools in 2010, which means one officer for 13 DSS schools. The manpower should be commensurate with the regulatory system.	5.1 The number of REO staff (5.4) deployed to undertake duties relating to DSS schools was worked out in staff resources planning based on the relative workload of DSS schools as compared to other types of schools. Though there was no designated post in the REOs specifically created for DSS schools, in actual operation, the REOs would deploy their staff as required. In the past year, the number of staff involved in supporting the administration and development of DSS schools was actually more than 5.4. The EDB will review the staff resources of the REOs from time to time and make adjustments when necessary.

Members' Suggestions		Administration's Responses	
6.	<p>The procedures of DSS schools should be proper and transparent. Therefore, appropriate rules and codes of practice should be laid down for compliance by the management, teachers and executives of schools. The enforcement and compliance of such rules and behavioural standards should be monitored.</p>	<p>6.1 DSS schools are accountable to the government, the public and their stakeholders, including parents, for the use of resources to provide quality education. In this regard, the EDB has issued guidelines from time to time, requiring them to exercise prudence and be accountable for the proper use of these funds in the best interest of their students. DSS schools should enhance the transparency of their operation, and put in place a proper governance structure and a clear mechanism for check and balance and internal control purposes to avert any possible abuses and to consult relevant stakeholders.</p> <p>6.2 The Working Group on DSS is exploring measures to strengthen the internal control mechanism of DSS schools and the monitoring of DSS schools by the EDB to facilitate schools' better administration, personnel management and financial management. The Working Group will continue to gauge the views of the DSS schools before submitting its recommendations to the Secretary for Education by the end of 2011.</p>	
V. Others			
1.	<p>The signing of SSB SAs should be expedited. For SSBs that refuse to enter into SAs, the Administration should take the initiative to find out their reasons and enhance communication with them so as to identify a solution acceptable to both sides.</p>	<p>1.1 The EDB has implemented the following measures:</p> <p>(i) Upon receipt of applications for joining the DSS, the EDB will inform applicant schools that no changes to the terms and conditions of the standard SSB SAs are allowed unless under very special circumstances.</p> <p>(ii) For aided schools applying for joining the DSS, their SSBs are</p>	

Members' Suggestions	Administration's Responses
	<p>required to enter into SSB SAs before the schools commence operation under the DSS.</p> <p>(iii) As regards applications for school allocation, the EDB will make it clear in its correspondence with SSBs and relevant documents (e.g. guidelines and application forms of the School Allocation Exercise) that schools are required to enter into SSB SAs before submissions are made to the Public Works Subcommittee (PWSC) of the Legislative Council or before land/school premises are handed over. Submissions will be made to the PWSC and land/school premises will be handed over to schools only after they have signed SSB SAs.</p> <p>1.2 Of the five schools that did not sign SSB SAs as mentioned in the Director of Audit's Report No. 55, the SSB of three schools have already signed the agreements with the EDB in the past months; one has accepted the revised clause in the SMC service agreement after negotiating with the EDB and is expected to conclude both the SSB SA and SMC SA by the end of this school year; and the remaining one is negotiating with the EDB regarding a clause in the SMC SA for early conclusion of both the SSB SA and SMC SA.</p>
<p>2. Other aided schools should be treated fairly so that the publicly funded school system can provide quality education. DSS schools enjoy a great degree of freedom, and can achieve a better student-teacher ratio and implement small class teaching widely using the additional resources available to them. Other aided schools should also enjoy such freedom to develop their unique</p>	<p>2.1 The objective of introducing the DSS is to inject diversity to the school system in Hong Kong so that parents will have greater choice in finding suitable schools for their children. The finance mode and the operation flexibility of DSS schools are the fundamental parameters to realize the policy objective. Aided and DSS schools are two types of schools under different operation modes such that DSS schools are not required to follow the codes governing the management of aided</p>

Members' Suggestions	Administration's Responses
<p>features and implement small class teaching and other measures. The existing allocation of resources should be reviewed to ensure that it is fair.</p>	<p>schools. Besides, even though aided schools do not collect school fees from students, the Administration has been implementing various initiatives injecting resources in aided schools and supporting their provision of high quality education services. Moreover, with the implementation of school-based management, aided schools are enjoying a high level of flexibility and autonomy to deliver quality education.</p>

Education Bureau

4 July 2011

Relevant papers on Direct Subsidy Scheme Schools

Committee	Date of meeting	Paper
Panel on Education	6.7.2009 (Item II)	Agenda Minutes IN20/08-09
Legislative Council	5.3.2011	Official Record of Proceedings Pages 117 - 171 (Motion)
		Chapter 1 of Part 8 of Public Accounts Committee Report No. 55 - Administration of the Direct Subsidy Scheme and Governance and Administration of Direct Subsidy Scheme Schools
Panel on Education	11.7.2011 (Item III)	Agenda Minutes

Council Business Division 2
Legislative Council Secretariat
13 April 2012