

LEGISLATIVE COUNCIL BRIEF
REVIEW OF PRIVATE SCHOOL POLICY

INTRODUCTION

At the meeting of the Executive Council on 16 March 1999, the Council ADVISED and the Chief Executive ORDERED that:

- (a) two government-built secondary school premises be allocated for operation as non-profit-making^[Note 1] Direct Subsidy Scheme (DSS)^[Note 2] schools from the 2000/01 school year under a ten-year service agreement, subject to a comprehensive review which will be conducted after the school has operated for five years. If the response is enthusiastic and the quality of applications is high, the number of schools to be allocated may be increased, up to an additional two (paragraphs 7 to 10);
- (b) the two sites (one of about 6500 square metres at Po Kong Village Road, Diamond Hill and the other of about 5200 square metres at Siu Lek Yuen, Shatin) as shown on the plans at Annex A will be granted by private treaty at a nominal premium to school operators for the construction of

^[Note 1] By “non-profit making”, we refer to those which are approved charitable institutions or trusts of a public character exempt from tax under section 88 of the Inland Revenue Ordinance.

^[Note 2] The concept of DSS was introduced in 1988 to provide recurrent subsidy for private secondary schools while allowing them the maximum freedom with regard to the curriculum, school fee and entrance requirements, so as to enable them to develop into viable alternatives to aided and Government schools. The subsidy is based on the average unit cost of aided school places. A DSS school may also apply for capital assistance loan to improve and repair its school premises.

non-profit-making private independent schools, for ten years which is the same as that of the service agreement to be entered between Government and the school operator from the date of grant, and subject to payment of Government rent from the date of the land grant and such other basic terms and conditions as shall be determined by the Director of Lands (paragraphs 11 to 13);

- (c) the land leases of the sites granted by virtue of (b) above will, upon expiry and in the event that the service agreements in question are renewed following satisfactory evaluation of performance, be extended for a term that is the same as that of the renewed service agreements without payment of an additional premium but Government rent shall be charged from the date of extension (paragraph 14);
- (d) a capital grant, the amount being no more than the cost for constructing a standard design public sector school accommodating the same number of students, be provided to private independent schools (paragraph 15);
- (e) the Director of Lands will be delegated the authority to grant other sites by private treaty to school operators for the construction of private independent schools, provided that the basic terms and conditions of such land grants follow the approach set out in (b) above and the land grants fall within the policy set out in this brief. The extension of the leases of such sites should follow the approach set out in (c) above (paragraph 19); and

(f) from 1999/2000 school year, aided primary schools will be invited to apply to join DSS (paragraph 21).

2. The Council also took note of the various modifications to the DSS as outlined in paragraph 20 below.

BACKGROUND AND ARGUMENT

General Background

3. Since 1978 when the Government started to provide 9-year universal and free education, the majority of schools in Hong Kong have been run by non-government organisations under the codes of aid. Local private schools have since had a declining “market” share; and for most parents, they do not offer a serious alternative to aided schools or schools run by the Government.

Present Position

4. For the 1998/99 school year, only about 85200 (9.1%) of our students study in 129 (65 primary and 64 secondary) local private schools including DSS schools and private independent schools, accounting for 7.7% of student enrolment at primary level and 10.6% at secondary level.

5. While the domination of public sector schools may well be appropriate and desirable in the past when the community as a whole was less affluent and had less demand for choice, there is a need to inject more variety into our school system so as to give parents more choice, in the face of diverse attitudes and values, a multitude demand in our work

place, fast changing technology and increasing globalisation. Accordingly, the Chief Executive announced, in his 1998 Policy Address, the following new measures to facilitate the development of the private school sector-

- (a) allocating, on a pilot basis, Government-built school premises for sponsors to operate new, non-profit-making, DSS schools from the 2000/01 school year;
- (b) providing on a pilot basis, assistance in the form of land grants at nominal premium and interest-free capital assistance loans in 1999 for non-profit-making private independent schools which do not receive recurrent subsidy from Government; and
- (c) increasing the level of capital and recurrent assistance to schools under DSS from the 1999/2000 school year.

6. In the past few months, the Education and Manpower Bureau (EMB) and Education Department (ED) have been hammering out the details of the arrangement for these proposals. These are described in paragraphs 7 to 20 below.

Detailed Arrangements

Allocation of government-built school premises for operation of DSS schools from 2000/01 school year (paragraph 5(a) above)

Application procedure

7. We will invite as soon as possible applications for two government-built secondary school premises^[Note 3] for operation as non-profit-making secondary schools under DSS from the 2000/01 school year. If the response is enthusiastic and the quality of applications is high, we may consider slightly increasing the number of schools, up to an additional two. To enable applicants to choose locations which best suit their school's vision, mission and future development, we will allow them and prospective aided school operators to apply together for the government-built school premises to be allocated in the 2000/01 school year. Other things being equal, preference will be given to DSS schools in order to facilitate the development of the private school sector.

8. Applicants will be required to submit a detailed proposal by end May 1999. The proposal should set out, amongst other things, the vision, mission, performance targets of the school, as well as evaluation criteria for target attainment. The proposal should also include a scholarship scheme and/or financial assistance for deserving students. The applications will be considered by a vetting committee chaired by the Director of Education (D of E) with EMB/ED representatives and non-officials. The results will be announced in August 1999.

^[Note 3] These schools are originally planned for operation as aided secondary schools. They are under construction and are scheduled for operation in September 2000.

Ten-year service agreement

9. To enhance schools' accountability in delivering education in exchange for government assistance, and to facilitate the development of performance-based school management, we will introduce the concept of a time-limited service agreement to be entered between the successful applicant and Government. The term of the agreement will be ten years. Government will allow the school sponsor to use the school premises under a short-term tenancy. The term of the tenancy will be coterminous with the service agreement, i.e. it will come to an end at the same time as the service agreement expires or is terminated. The school will pay a nominal rent for the short-term tenancy, receive reimbursement of rates and the DSS subsidy at the prevailing terms during the agreement period. Despite the normal duration of the agreement being 10 years, a comprehensive review will be conducted with reference to the performance targets and evaluation criteria stated in the agreement after the school has operated for five years. If the review indicates that the school has failed its performance set, ED may terminate the agreement. In addition, ED may periodically review the performance of the school during the ten-year period and advise the school of the need to make improvements to overcome identified problems. In exceptional cases, e.g. the school repeatedly refuses to accept ED's advice to make improvements, Government may terminate the service agreement any time during the ten-year period. Subject to evaluation of the school's performance, the 10-year service agreement is renewable on expiry.

10. On termination of the service agreement, Government will either allocate the school to a new operator or temporarily take over the school, i.e. pending the selection of a new operator, officers of ED will be sent to take over the management of the school. In either case, all the students

of the school will stay put and no compensation will be paid to the previous school operator. Detailed arrangements for allocating government-built premises for operation of DSS schools are set out in Annex B.

Land and financial assistance for operation of private independent schools (paragraph 5(b) above)

Application procedure

11. We will invite as soon as possible applications for the grant by private treaty of two school sites for the construction of non-profit-making private independent schools. We have reserved two sites for this purpose, one of about 6500 square metres at Po Kong Village Road, Diamond Hill, and the other of about 5200 square metres at Siu Lek Yuen, Shatin, as shown on the plans at Annex A.

12. Applicants will be required to submit a detailed proposal before end May 1999. The proposal should set out, amongst other things, the vision, mission, performance targets etc. of the school, as well as evaluation criteria for target attainment. It will be open to the applicants to propose whether to operate a primary school, a secondary school, or a primary-cum-secondary school. In order to prevent this proposal from becoming a backdoor to the operation of international schools (which is subject to a separate assistance scheme), the applicant should undertake to ensure that at least 70% of the student population of the school are local children. Appropriate scholarship schemes and/or other financial assistance should also be in place for deserving students. The applications will be considered by the same vetting committee (see paragraph 8 above) which will announce the results in August 1999.

Ten-year service agreement

13. A successful applicant will sign a ten-year service agreement with Government. Government will grant the land by private treaty to the successful school sponsor for a term that is the same as that of the service agreement from the date of grant, i.e. the land lease will come to an end at the same time as the service agreement expires or is terminated. A nominal premium will be charged but the school sponsor will be required to pay Government rent at 3% of the rateable value of the land from time to time from the date of the land grant. Other basic terms and conditions of the land grant will be determined by the Director of Lands.

14. Renewal of the service agreement on its expiry will be subject to evaluation with reference to the performance targets stated in the agreement. ED may also periodically review the performance of the school during the term of the service agreement and advise the school of the need to make improvements to overcome identified problems. In exceptional cases, e.g. the school repeatedly refuses to accept ED's advice to make improvements, Government may terminate the service agreement during the ten-year period. In the event that the service agreement is renewed, the land lease will be extended for a term that is the same as that of the renewed service agreement without payment of an additional premium. From the date of extension, Government rent at 3% of the rateable value from time to time of the land shall be charged.

Capital grant

15. We originally envisaged (as announced in the Policy Address - see paragraph 5(b) above) providing the successful applicants with an interest-free capital assistance loan to facilitate their construction of the schools. Having considered the matter further, we have decided to

provide the applicants with a capital grant instead, the amount being no more than the money-of-the-day construction cost for a standard design public sector school accommodating the same number of students, for building the schools. Since it is very expensive to construct a school in Hong Kong, (for reference, the average cost of building an aided primary school is about \$91 million, that of an aided secondary school is about \$108 million, both at December 1998 price level,) a capital grant would help high quality non-profit making school operators overcome a major entry barrier and encourage them to put forward applications. Also, with the provision of a grant, there should be less of a pressure for school operators to charge very high school fees in order to generate income to repay the loan. This would mean that more parents could afford to choose these schools.

16. While the capital grant would help school operators overcome one of the major entry barriers, the operators will still have to come up with a considerable sum up-front. First, as the grant will be no more than the construction cost of a standard design public sector school, and as the actual construction cost will most likely be higher (as the operators may wish to put in more facilities or to accommodate fewer students through smaller classes), any shortfall will have to be met by the operators. Secondly, as with aided schools, operators of private independent schools are required to bear the cost of furniture and equipment (about \$4 million to \$9 million for aided schools) of the schools. All these will help ensure that the schools are run by operators who are financially sound and who are prepared to invest private money in the provision of quality education.

17. Apart from the capital grant, the school will not receive any recurrent or further capital financial assistance from Government as DSS or aided schools. Likewise, the students will not be eligible for student

financial assistance under the existing schemes administered by the Student Financial Assistance Agency.

18. On termination of the service agreement, Government will either allocate the school to a new operator or temporarily take over the school. In either case, all the students of the school will stay put. No compensation will be made if the depreciated value of the school premises is less than the capital grant that has been provided. However, if the depreciated value exceeds the grant, Government will pay the difference to the previous school operator in order to take back the premises. (If the premises is eventually allocated to another operator to run as a non-profit-making private independent school, we would require the operator to pay that difference to Government to buy the premises.) More detailed arrangements for land grants and financial assistance for operation of private independent schools are set out in Annex B.

19. The two school projects outlined above are to be implemented as a pilot. If they are successful, we may in future identify other sites for the construction of non-profit-making private independent schools, following the broad arrangements for the two pilot schools. In this regard the Director of Lands has been delegated the authority to grant these sites by private treaty, provided that such land grants fall within the policy set out in this brief. The extension of the leases of such sites should follow the approach set out in paragraph 14 above.

Modifications to DSS (paragraph 5(c))

20. As part of the review, we will be introducing a number of modifications to the DSS which would apply, where appropriate, to both new and existing DSS schools. The modifications are -

- (a) only non-profit-making DSS schools will be eligible for the enhanced subsidy of the Scheme;
- (b) DSS schools could choose what they consider to be the most suitable medium of instruction (MOI) for different subjects in their curriculum. They will be required to consider testing their intakes on admission to ensure that their students would be able to benefit from the MOI chosen. They will also be required to propose evaluation criteria to assess in due course whether their students are indeed benefiting from the selected MOI for individual subjects. In addition, the school's choice of MOI will be assessed in future with reference to the language benchmarks for teachers once the benchmarks are available;
- (c) schools which are operating from premises with a lease may be considered for conditional admission. They will be required to secure their own premises within ten years after admission. The conditional admission could be renewed if they are able to continue the lease for the premises beyond the ten-year period;
- (d) non-recurrent capital grant will be provided to schools for slope repairs and major repairs; and
- (e) one-off cash grant will be provided to schools for upgrading school facilities.

Details of the above modifications are in Annex C.

21. At present, only secondary schools may apply to join DSS. In line with our overall policy to develop a strong DSS sector, aided primary schools may, as from the 1999/2000 school year, apply to join the DSS as well. However, we do not favour accepting applications from private primary schools, i.e. receiving no Government subsidy, for conversion to DSS, i.e. receiving Government subsidy, given the huge resource implications and the lack of overriding policy justifications.

FINANCIAL AND STAFFING IMPLICATIONS

22. The various improvements to DSS would require initial capital cost totalling around \$1.1 billion (December 98 prices) over the next few years and recurrent funding of about \$75 million on a full-year basis, as follows-

- (a) capital cost of about \$220 million being the construction cost of two standard secondary schools for allocation as new DSS schools (this capital cost however would be incurred in any case if the schools were operated as aided schools. Indeed, these schools are being constructed and the building works will complete before the commencement of the 2000/01 school year);
- (b) capital grant of about \$220 million being the construction cost of two standard secondary schools, or about \$180 million for two primary schools, to be provided to private independent schools granted land at nominal premium;

- (c) capital grant of about \$80 million for DSS schools to carry out slope and major repairs;
- (d) capital grant of about \$580 million for DSS schools to upgrade school facilities; and
- (e) recurrent subsidy totalling \$75 million in a full year for two new DSS schools (in any case, we need to pay this amount of recurrent subsidy were these two schools to operate as aided schools) .

23. We have secured \$46 million under the Capital Works Reserve Fund in 1999-2000 for providing capital assistance to DSS schools in 1999/2000 school year. We will earmark recurrent resources and bid for additional capital funds in accordance with normal procedures for the subsequent years. The Education Department and the Architectural Services Department will absorb any additional manpower requirements arising from implementation of the new measures.

PUBLIC CONSULTATION

24. Before the announcement by the Chief Executive in his 1998 Policy Address (see paragraph 5), the various new measures to facilitate the development of the private school sector had undergone a long period of gestation and consultation. LegCo, Education Commission (EC), Board of Education (BoE), leading school sponsors and selected school principals (from both the public and the private sectors) were consulted. There was broad support for the measures.

25. More recently, we have consulted EC and BoE on the detailed arrangements as set out in this brief. There was again broad support.

PUBLICITY

26. A press conference will be held in the afternoon of 16 March 1999 and a press release will be issued on the same day.

Enquiries about this brief may be directed to-

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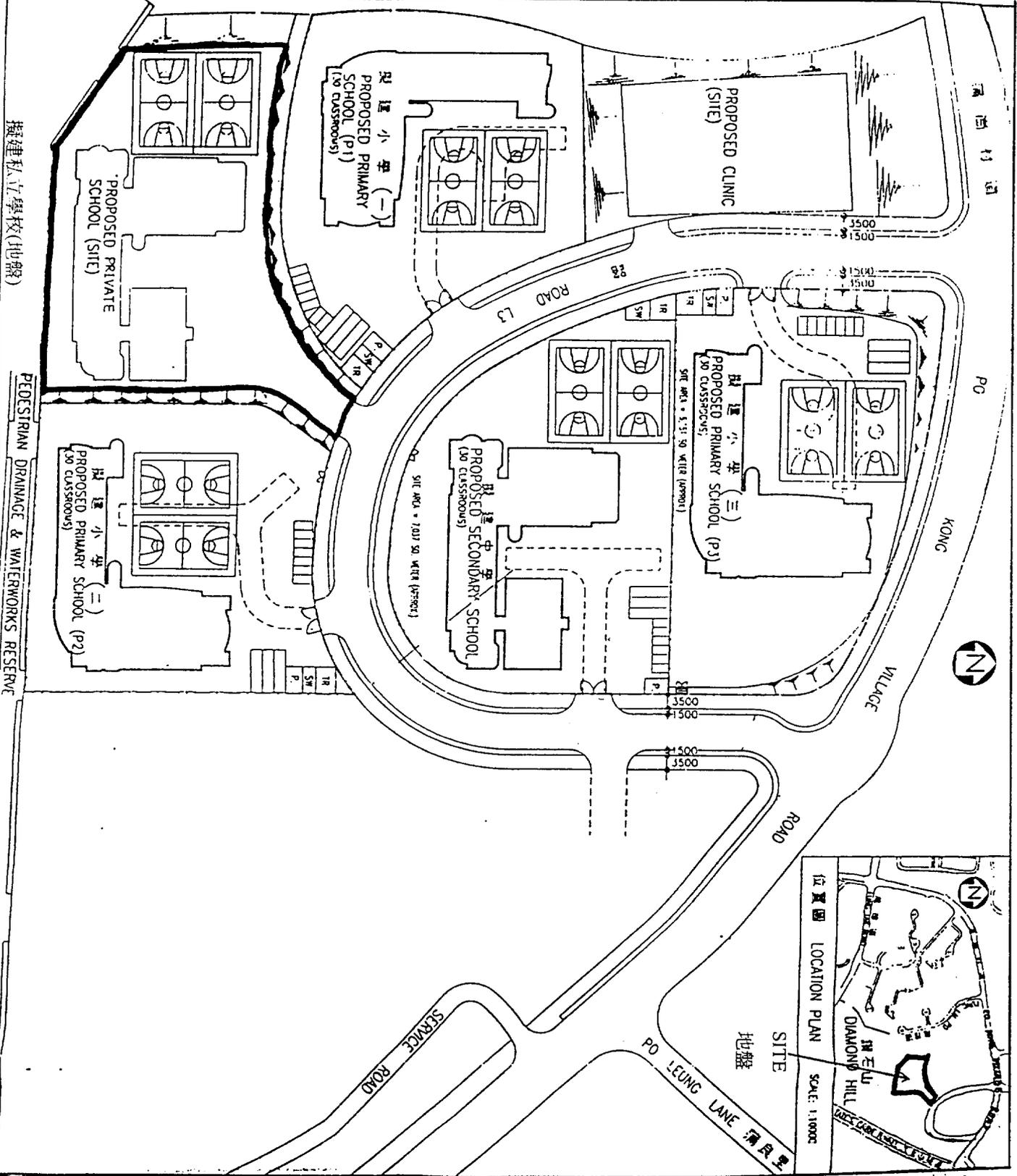
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Education and Manpower Bureau
Government Secretariat

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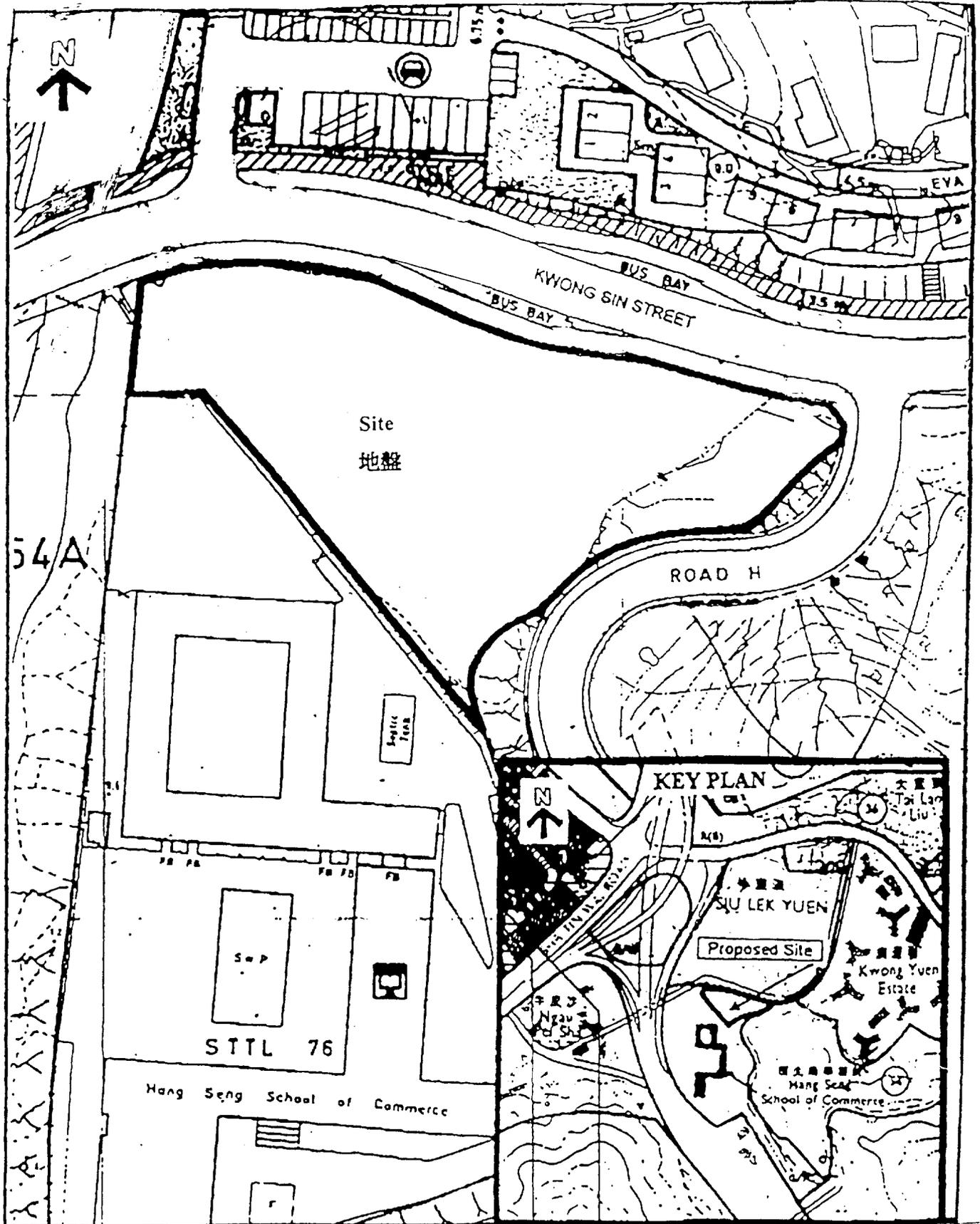
鑽石山私立學校用地位置圖

Location Map of Private School Site at Diamond Hill



沙田小瀝源私立學校用地位置圖

Location Map of Private School Site at Siu Lek Yuen, Sha Tin



Proposed Modifications to DSSAdmission criteria

(i) Non-profit-making status

Currently, DSS schools may either be profit-making or non-profit-making. (Of the ten existing local DSS schools, nine are non-profit-making.) With the substantial enhancement in the level of DSS subsidy (see paragraphs 4-5 below), we believe it reasonable to require all schools, including existing DSS school, in receipt of enhanced DSS subsidy (to be introduced from 1999/2000) to attain non-profit-making status. Existing schools which are profit-making but which have initiated procedure for changing to non-profit-making status are deemed to have provisionally satisfied the condition and will be given one year after admission into DSS to complete the procedure.

(ii) Medium of Instruction (MOI)

2. At present, there is no restriction on DSS schools adopting English or Chinese as their MOI. We think DSS schools should continue to enjoy such flexibility. We further propose that these schools could choose what they regard as the most suitable MOI for different subjects in their curriculum. They will be required to consider testing their intakes on admission to ensure that their students would be able to benefit from the MOI chosen. They will also be required to propose

evaluation criteria to assess in due course whether their students are indeed benefiting from the selected MOI for individual subjects. In addition, the school's choice of MOI will be assessed in future with reference to the language benchmarks for teachers once the benchmarks are available.

(iii) Requirement of self-owned premises

3. At present, one of DSS's admission criteria is that the applicant must have self-owned premises. This requirement is to ensure that schools will have a security of tenure as a safeguard against disruption of education services. We propose that in future this requirement be applied more flexibly. Schools which are operating from premises with a lease may be considered for conditional admission. They will be required to secure their own premises within ten years after admission. They may do so by using their own resources to buy premises. Alternatively, they may compete with others for any Government-built school premises which are made available for allocation as DSS schools. If they are only able to continue the lease of the premises beyond the ten-year period, the conditional admission could be renewed.

Improvement to subsidies

(i) Non-recurrent assistance for slope and major repairs

4. Under the existing DSS, the subsidy does not take into account capital expenditure on slope and major repair works exceeding \$2 million. As a result is schools generally have difficulties in securing the necessary funds to carry out slope

and major repair works. We propose that under the revised DSS, schools will be eligible to bid funds annually for slope repairs and major repairs exceeding \$2 million, following the same application and vetting procedures applicable to aided schools for similar works. If its application for funds is approved, a school will be given a cash grant to carry out the works itself. Funds required for the financial year 1999/ 2000 have been made available under the Capital Works Reserve Fund.

(ii) One-off capital grant for upgrading school facilities

5. A capital assistance loan is available under the existing DSS for non-profit-making schools to improve and upgrade their school facilities(Note 1). However, in practice no DSS school has ever applied for the loan because they do not have the resources to repay the loan. We propose to provide the DSS schools with an one-off cash grant to upgrade their school facilities to the prevailing standard in aided secondary schools, subject to assessment of the feasibility, cost effectiveness and availability of resources for the proposed improvement works. Funds required for schools to carry out preliminary project feasibility study have been made available under the Capital Works Reserve Fund for the financial year 1999/ 2000.

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(Note 1) The loan is interest free and repayable over ten years.