

ITEM FOR FINANCE COMMITTEE

HEAD 177 - SUBVENTIONS : NON-DEPARTMENTAL PUBLIC BODIES Subhead 520 Vocational Training Council

Members are invited to –

- (a) note the new funding arrangements between the Government and the Vocational Training Council with effect from the 2000-01 financial year as embodied in the Memorandum of Administrative Arrangements; and
- (b) in the light of (a) above, approve the arrangement for the Vocational Training Council to retain its surplus recurrent subvention in the 1999-2000 financial year.

PROBLEM

Hitherto, the subvention arrangements for the Vocational Training Council (VTC) has not allowed it to respond promptly to changes in the training needs to meet the aspirations and requirements of both its prospective trainees and employers. The requirement to return to Government all surplus subvention at the end of each financial year has not provided an incentive for the VTC to manage its resources in the most economical manner.

PROPOSAL

2. We propose to allow the VTC to retain in its reserves surplus recurrent subvention in the 1999-2000 financial year, estimated to be \$138 million, in the light of the revised subvention arrangements agreed between the Government and the VTC with effect from the 2000-01 financial year.

/JUSTIFICATION

JUSTIFICATION

Old Funding Arrangement

3. Subvention to the VTC has hitherto been provided on a deficiency basis, whereby, inter alia, the VTC is required to return to the Government any surplus subvention at the end of each financial year. This mode of subvention does not allow sufficient flexibility for the VTC to utilise its funds to respond promptly to the rapidly changing service needs. It also does not provide adequate incentives for the VTC to be enterprising in financial management and to enhance its productivity.

New Funding Arrangement

4. In order to develop the full potential of organisations in the subvented sector, we need to institute fundamental changes to the mode of subventions, service level agreements and funding arrangements for these organisations. To enable the VTC to be more innovative and to respond promptly to changing services needs and to encourage it to manage its finances as effectively as possible, the Administration has agreed to give the VTC greater flexibility in the use of its subvention. Under the new arrangement, the recurrent subvention to the VTC will take the form of a lump sum grant, and the VTC will be allowed to accumulate reserves subject to a ceiling. These changes have been highlighted in the Government's 2000-01 Estimates and will take effect from the 2000-01 financial year.

5. The major principles of the new financial arrangement have been agreed between the Government and the VTC and amplified in a Memorandum of Administrative Arrangements (MAA) between the two parties. The MAA provides a more clearly defined framework for the relationship between the Government and the VTC and sets out in detail the responsibilities of each party. The MAA also sets out the new financial arrangement between the Government and the VTC starting from the 2000-01 financial year, whereby the VTC will be subvented on a lump sum grant basis and be allowed to retain unspent funds in its reserves. The VTC, however, will have to return to the Government any savings arising from service-wide reductions in remuneration, e.g. those arising from changes to Civil Service starting salaries and the level of contract gratuity. The reserves must be used on activities lawfully permitted under the Vocational Training Council Ordinance and in furtherance of the VTC's objects. The level of reserves to be retained by the VTC, on a cumulative basis, shall not exceed 15% of its annual block grant in the current financial year¹, unless otherwise agreed by the Government. As a corollary to the new funding arrangement, the VTC needs to

/propose

¹ Based on the level of recurrent subvention to the VTC in 2000-01, 15% amounts to about \$323 million.

Encl. propose adequate output and outcome performance pledges as justifications for the resource input the VTC receives. A copy of the MAA is at the Enclosure.

6. The flexibility for subvented bodies to save money for future use is considered and proven effective in resource management, in encouraging better use of resources, providing an incentive to save money and promoting longer term planning. It is practised by the Hospital Authority, and more recently in the Operating Expenses Block Grant for aided schools.

Treatment of the 1999-2000 Surplus

7. According to its provisional closing of accounts, the VTC has achieved savings in the region of \$195 million in the 1999-2000 financial year. The VTC was able to achieve such savings owing to rigorous and effective implementation of cost-cutting exercises in the following areas –

- (a) over one quarter (\$57 million) of the surplus was a result of the reduction of contract gratuities and rental allowances, following a service-wide adjustment in employment package in the public sector;
- (b) in anticipation of implementing the Enhanced Productivity Programme and in line with market trends, the VTC has reduced acting allowances and expenses for part-time teachers. It has also frozen a number of posts as they have become vacant pending implementation of restructuring measures to make the VTC's provision of education and training more efficient and cost-effective. These measures have resulted in savings of some \$70 million; and
- (c) the remaining \$68 million surplus was a result of changes in the scheduled expansion plans of some training centres, increased income from its investment and increased fee income from in-service training courses. Savings in operating expenses were also achieved through improved financial management.

8. In line with the new funding arrangement under the MAA and to facilitate the VTC to make an early start in launching new courses in quick response to changes in service needs, we propose that the VTC should be allowed to retain as reserves its surplus recurrent subvention in 1999-2000. However, savings arising from service-wide reduction in remuneration as described in paragraph 7(a) above has to be returned to the Government. After deducting these savings, the amount of surplus subvention in 1999-2000 proposed to be retained by the VTC as its reserves is estimated to be \$138 million.

/Proposed

Proposed Use of the Reserves

9. Having reviewed its work plan in the coming few years, the VTC proposes to utilise a portion of its surplus subvention in 1999-2000 to cover the capital costs and the recurrent costs in 2000-01 for the proposed increase of 1 500 vocational training places for Secondary 3 and 5 school-leavers². The expenditure will cover –

- (a) a one-off capital cost for providing short-term accommodation for the additional training places, which includes renovation and conversion works as well as the acquisition of the necessary teaching equipment, furniture, etc. In this regard, the VTC plans to renovate the ex-Singapore International School at Kennedy Town and the Canton Road Government Offices to accommodate the 1 000 full-time Foundation Diploma places and the 500 Certificate in Vocational Studies places. The VTC estimates that these would entail a one-off cost of about \$21 million; and
- (b) the recurrent cost in 2000-01 for these 1 500 training places. The courses will commence in September 2000 and the net recurrent cost in 2000-01 is estimated to be \$24 million. The Government will provide annual recurrent funding for the additional training places from 2001-02 onwards.

10. In the longer term, the VTC will consider acquiring permanent accommodation for the 1 500 additional training places. The additional accommodation could also be utilised for accommodating VTC's other expanding training services, in particularly those continuing education courses which are run primarily outside normal school hours.

11. Taking into account paragraphs 9(a) and (b) above, the VTC estimates that the remaining surplus to be kept as reserves will be in the region of \$93 million. The reserves will be used primarily to fund new initiatives to support vocational education and training. These will include new courses and programmes in response to changing socio-economic needs and the purchase of permanent accommodation for teaching and training purposes. Areas which the VTC believes require new and more innovative programmes are IT and vocational English. Projects would be focused on enhancing and expanding the provision of education and training programmes for Secondary 3 and 5 school-leavers, and also for in-service employees, and at the continuing professional education level.

/FINANCIAL

² As one of the 2000 Budget initiatives to enhance young people's employability, the VTC is requested to provide an additional 1 000 full-time Foundation Diploma places and 500 Certificate in Vocational Studies places for Secondary 5 and Secondary 3 school-leavers respectively from the 2000/01 academic year.

FINANCIAL IMPLICATIONS

12. By allowing the VTC to retain its surplus recurrent subvention in 1999-2000, Government will forgo a one-off savings of \$138 million which would otherwise have been clawed back from the VTC under the previous subvention arrangement. The arrangement to allow the VTC to retain unspent funds in its reserves would not by itself create additional financial implications for the Government in terms of budgeting. Unspent funds against the annually approved provision for the VTC will now accumulate in the VTC in furtherance of its objectives instead of being returned to the Government at the end of each year³. As a result, the VTC would have its own source of funds to meet ad hoc requirements in response to changing service needs in a prompt and effective manner.

BACKGROUND INFORMATION

13. The VTC was established in 1982 to consider and report to the Government on matters concerning technical education, industrial training and skills training; keep under review the needs of industry for trained manpower; devise training programmes, examinations and tests for any trade; and provide or approve training courses and other facilities for technical education, industrial training and skills training.

14. The Finance Committee of the Legislative Council approved in 1982 that the VTC would receive its recurrent subvention from the Government in the form of an annual block grant. If at the end of a financial year under-expenditure, for whatever reasons, has resulted in a surplus, the amount of the surplus will be offset against the payments for the next financial year. The Government's subvention to the VTC in the 1999-2000 financial year amounted to HK\$2.14 billion. For the current financial year, the approved subvention to the VTC is HK\$2.19 billion.

15. We briefed the Legislative Council Panel on Manpower on the MAA and the proposed arrangement for the VTC to retain its surplus recurrent subvention in the 1999-2000 financial year at its meeting on 25 May 2000.

Education and Manpower Bureau
May 2000

³ In the 1996-97, 1997-98 and 1998-99 financial years, the amount of unspent recurrent subvention returned by the VTC to the Government was \$41.4 million, \$52.0 million and \$56.6 million respectively.

**Memorandum of Administrative Arrangements between
the Government of the Hong Kong Special Administrative Region
and the Vocational Training Council**

1. Preamble

- 1.1 This Memorandum of Administrative Arrangements (“MAA”) sets out the understanding reached between the Secretary for Education and Manpower (“SEM”) and the Vocational Training Council (“VTC”) in consultation with the Secretary for the Treasury (“S for Tsy”). It provides the framework for the relationship between the Government of Hong Kong Special Administrative Region (“The Government”) and the VTC and sets out in detail the responsibilities of each party.
- 1.2 The provisions of the MAA are founded on the principle that the VTC should have autonomy and flexibility in utilising its funds and resources insofar as it is compatible with the provisions of the Vocational Training Council Ordinance (“VTCO”), and as necessary for the Director of Apprenticeship to carry out his functions under the Apprenticeship Ordinance (“AO”), as long as the Executive Director, VTC is appointed by the Chief Executive as the Director of Apprenticeship under the AO.
- 1.3 In the event of any inconsistency between the provisions of this MAA and the provisions of the VTCO, the latter will prevail.
- 1.4 For subject matters not specifically covered in this MAA, the VTC undertakes to observe the Government’s overall subvention policy and guidelines prevailing at the time.
- 1.5 Both the SEM and the VTC may propose amendments to the MAA. Any amendments agreed by both parties following consultation, where relevant, with the S for Tsy will form part of the MAA.
- 1.6 This MAA does not preclude the Chief Executive in Council from issuing directions to the VTC as provided for in the VTCO.

- 1.7 The administrative arrangements between the Secretary for Health and Welfare and the VTC in respect of the Skills Centres for the disabled are not covered by this MAA.

Part I – Broad Policy Framework

2. Objectives of the VTC

- 2.1 The VTC is the principal organisation in Hong Kong for providing a comprehensive system and services of technical education, industrial training and skills upgrading in accordance with the Government's manpower planning and development policy.
- 2.2 With the sole exception as specified under paragraph 1.7 above, the objects of the VTC are to –
- (a) advise the Government on the measures required to ensure a comprehensive system of technical education and industrial training suited to the developing needs of Hong Kong;
 - (b) institute, develop and operate schemes for training operatives, craftsman, technicians and technologists needed to sustain and improve industry;
 - (c) promote the training of apprentices;
 - (d) provide and coordinate the provision of skills training to disabled persons aged 15 and over for the purpose of improving their employment prospects and preparing them for open employment;
 - (e) establish, operate and maintain vocational institutions, industrial training centres and skills centres.
- 2.3 In achieving these objectives, the VTC undertakes to be flexible and proactive in response to the changing demands of the economy.

2.4 The VTC will provide technical education and industrial training for students at post-Secondary 3 and post-Secondary 5 levels, and for people already in the workforce. Such training will be at the craftsman, technician and technologist levels, and will lead to awards ranging from craft and technician qualifications to higher diploma and professional qualifications, as well as in-service training and skills upgrading. The VTC will ensure a high degree of participation by various sectors of the economy – the key stakeholders and end-users of its services – in its work.

3. Relationship between the Government and the VTC

3.1 The Government will fund the VTC's activities which support the Government's priorities in technical education and industrial training, having due regard to the overall government budgetary position and specific performance pledges and output targets as agreed between SEM and the VTC.

3.2 The Education and Manpower Bureau ("EMB") will act as the focal point of contact between the Government and the VTC. For the convenience of the VTC, EMB will coordinate consideration of VTC's request for funds under both the technical education and industrial training programme ("the Programme") and the programme for the provision of skills training to disabled persons.

3.3 The VTC will be autonomous in the management and control of its activities and resources as provided for under the VTCO and this MAA.

Role of the SEM

3.4 The role of the SEM in relation to the Programme is to –

- (a) receive advice about the Programme from the VTC and refer matters to the VTC for advice;
- (b) ensure that the VTC's activities accord with relevant public policies and priorities;

- (c) secure public resources for the Programme in the light of overall Government priorities and the needs of the Programme, and having regard to any scope for savings and non-Government revenues; and
 - (d) ensure, as Controlling Officer for the subvention to the VTC (except that relating to Skills Centres for the disabled for which the Secretary for Health and Welfare is the Controlling Officer), that the VTC's subvented activities under his purview are properly and effectively planned, delivered and evaluated.
- 3.5 As the Government's policy officer for the Programme, SEM is responsible for ensuring that the Programme's policy objectives are appropriate, and that they remain so in the light of changing circumstances. The VTC may advise SEM of the need to review these objectives in the light of changes in socio-economic environment.
- 3.6 Having regard to the VTC's statutory responsibilities, the SEM may give policy guidance to the VTC on such matters as –
- (a) the policy objectives of the Programme;
 - (b) the scope of the Programme, its relationship with other policy programmes, and coordination among different programmes;
 - (c) the status, powers and duties of any executive or advisory body relevant to the Programme, and
 - (d) strategic issues which impinge, or may impinge, on the Programme.
- 3.7 Where it appears to the SEM that any activity of the VTC duplicates or overlaps with any activity of any other agency, he may ask the VTC to justify the provision of public funds to support its conduct of that activity.

Role of the VTC

- 3.8 The VTC is responsible for the administration of those activities for

which it has statutory executive authority. It is also responsible for advising the Government on the measures required to ensure a comprehensive system of technical education and industrial training suited to the developing needs of Hong Kong.

- 3.9 The VTC is accountable to the Government for the effective and efficient delivery of technical education and industrial training services.

Three-year Strategic Plan

- 3.10 The VTC should submit to the SEM annually, before the submission of its Annual Plan referred to in paragraphs 3.11 to 3.13 below, a three-year strategic plan. The strategic plan should set out the strategic targets of the VTC, the plans to be adopted in achieving those targets, and an assessment of their resource implications. It should be updated and rolled forward on an annual basis. It is submitted for planning purpose and acceptance of it does not commit Government to funding other than those funding for the coming year as subsequently approved in the Annual Plan.

The Annual Plan

- 3.11 The VTC should submit to the SEM annually a programme of proposed activities and estimates of income and expenditure (“the Annual Plan”), containing such information as the SEM may require in order to perform his/her statutory duties relating to the Programme and the subvention to the VTC. The Annual Plan should be in a format which provides clear and concise information about VTC’s activities under different programme areas, their objectives, the number of training places being offered and/or to be offered at different academic and skill levels, the current performance indicators, targets proposed by the VTC and plans for the coming year (see also s.7 below). The Annual Plan should comprise a brief introduction, a summary of the proposed programme focusing on the main objectives, performance indicators and resources.
- 3.12 The SEM should convey his/her approval of the Annual Plan in a letter of approval to the Chairman of the VTC. In the letter, the SEM will –

- (a) draw attention to any areas for which approval is conditional or withheld; and
 - (b) specify the resources to be allocated by the Government to the VTC and their intended purposes, where appropriate.
- 3.13 The SEM may also, in the letter of approval, give guidance on other matters such as –
- (a) those matters specified in paragraph 3.6 above;
 - (b) the admission criteria for basic pre-employment courses at the post-Secondary 3 and post-Secondary 5 levels.; and
 - (c) the tuition fees to be charged for courses which involve government subsidies, having regard to the prevailing Government fee policy.

4. Role of the Government’s Representatives in the Council

- 4.1 In accordance with the provisions of the VTCO, the Chief Executive may appoint public officers to sit on the Council of the VTC. While enjoying the same status as other Council members, the public officers do not have any veto power on the Council’s deliberations. Their main role is to provide input from the Government’s perspective, explain Government policies and practices, and advise whether any proposals put to the Council are consistent with the prevailing Government policies and procedures. Where, in discharging their role, no conflict of interests arises, they must like all other members act in the best interests of the VTC.
- 4.2 On important matters involving deviations from established Government policies or having significant financial implications for the Government, the VTC undertakes to seek the formal approval from the Government, after discussion by the Council.

5. Organisation and Management

- 5.1 The VTC shall keep the organisational structure of its executive under regular review, and shall develop plans for any changes necessary to ensure that defined objectives are pursued as effectively and efficiently as possible. The VTC shall ensure that its executive has a standing capacity to conduct internal review of management effectiveness, productivity and value for money.
- 5.2 The VTC should, at regular intervals of not less than three years, conduct a management review. The purpose of the management review is, broadly, to ascertain that the organisation structure, decision-making and planning process, management and use of resources, delivery of services and the contribution of these services to the developing needs of Hong Kong are appropriate to the changing demands placed upon the VTC.

6. Academic and Fee Policy

- 6.1 Within the framework of the VTCO and this MAA, the VTC has autonomy on academic matters like admission policy, course structure and curriculum development. The VTC may provide courses on a temporary or experimental basis in response to changes in or demand from the labour market, prior to their incorporation into the regular programmes covered in the Annual Plan.
- 6.2 For courses which involve government subsidies, the VTC should seek SEM's approval of the tuition fees to be charged. The level of tuition fee proposed should take into account the prevailing Government fee policy.
- 6.3 For courses which do not involve government subsidies e.g. continuing education and professional development courses, the VTC has the discretion to determine the level of tuition fees.

7. Performance Pledges and Target Output

- 7.1 In preparing its Annual Plan, the VTC should propose adequate output and outcome performance pledges as justifications for the resource input the VTC receives. Such output and outcome performance pledges should be underpinned by indicators for planning and measuring the progress of the activities undertaken by the VTC. Such indicators should include, but are not limited to –
- (a) training places expressed in full-time equivalent (FTE) at various academic and skill levels;
 - (b) target completion rate of its trainees; and
 - (c) target job placement rate of its trainees, including the overall placement rate as well as the percentage of graduates who are employed in their own fields of training.
- 7.2 The precise target for each performance indicator should be proposed and determined in the context of each year's Annual Plan, having regard to the actual rates achieved over the past five years and market benchmarks, where available.
- 7.3 These output and outcome performance indicators provide important reference for VTC's planning of future course provision as well as the SEM's approval of the Annual Plan. The agreed indicators will be promulgated in the Government's Annual Estimates of Expenditure.
- 7.4 Failure of the VTC to achieve agreed performance targets without satisfactory explanations may be a reason for reducing or withdrawal of subvention.

Part II – Financial Arrangements

8. Budgeting

8.1 Recurrent subventions for the VTC are provided in the form of a cash-limited annual block grant which VTC may deploy for purposes including, but not limited to, the following:

(a) Staff Expenses

For salary, allowances, contributions to retirement schemes, gratuity and personnel-related expenses (including fringe benefits whether in cash or in kind) for staff in the VTC.

(b) Other Operating Expenses

For expenditure such as teaching materials, furniture and equipment, rents and rates, etc. For the avoidance of doubt, VTC may at its discretion charge non-recurrent expenses to its annual block grant without limit, subject to the total block grant provision not being exceeded.

8.2 In determining the level of the annual block grant to the VTC, the Government will take into account the level of income from tuition fees and other sources and general price increases, but will not take into account the amount of reserves being kept by the VTC.

8.3 The annual block grant is cash-limited in nature and adjustments will not normally be approved by Government except for:

(a) annual salary adjustment for staff in VTC recognised for subvention purpose in line with the civil service's pay adjustment. Adjustment for this purpose in the course of the financial year will be made on the basis of VTC's actual needs;

(b) payments for statutory obligations which are unforeseen and therefore not budgeted for, except where Government has already made it clear that there will be no additional provision for such payments when or

- before approving the Annual Plan;
- (c) new or additional services requested by the Government, funds for which have been secured through the Government's internal allocation system referred to in s.11 below;
 - (d) unforeseen contingencies beyond the control of the VTC.

8.4 In addition to the annual block grant, the Government may also allocate one-off funds to the VTC for specific non-recurrent purposes. Such non-recurrent subvention must only be used for the specified purposes and not be vired to the annual block grant.

8.5 The annual block grant will be released by the Government quarterly in advance in equal instalments while capital subventions will be released in advance in accordance with the VTC's cash flow forecast.

9. Treatment of income other than Government subvention

9.1 Income derived from tuition fees where the fee levels are approved by Government (s.6.2 above refers) will be taken into account in determining the annual block grant. Consequently, a reconciliation mechanism should be in place to cater for the eventuality that the tuition fee levels assumed in the Annual Plan are different from those actually approved by SEM.

9.2 VTC's income other than the tuition fees (e.g. interest income) will all be accounted for on a pre-agreed basis for the purpose of determining the level of the annual block grant. No adjustment will be made to reconcile the difference between estimated and actual amount of income.

10. Reserves

10.1 The VTC may keep as reserves any savings from its annual block grant arising from any reasons other than a curtailment or cessation of

activity in the Annual Plan, a surplus in tuition fee income under s.9.1 above, or reduction in remuneration for its staff as a direct consequence of changes in the civil service.

- 10.2 The level of reserves shall not, at any one point in time, exceed 15% of its annual block grant in the current financial year. Amount in excess of the limit should be returned to Government in the following financial year, unless the ceiling of reserve is raised by SEM in accordance with s.10.3 below.
- 10.3 The VTC may propose and SEM may raise the ceiling of the reserves following consultation with S for Tsy.
- 10.4 The VTC may freely use its reserves for any activities lawfully permitted under the VTCO and in furtherance of the VTC's objects, including courses on a self-financing or experimental basis in response to changes in, or demand from, the labour market.
- 10.5 VTC will absorb all financial consequences arising from the use of its reserves.

11. Annual Resource Allocation Exercise (RAE) and Draft Estimates

- 11.1 Where the VTC requires additional public funds to finance new and improved services or capital works, it will so advise SEM. Subject to his/her support for the proposals put forward, SEM will bid for the required funds in the Government's internal resource allocation system.
- 11.2 VTC shall submit returns to the annual draft Estimates each year in accordance with the formats and timetable prescribed by Government.
- 11.3 The principal officers of the VTC may be invited to attend meetings of the Finance Committee and its sub-committees, the Public Accounts Committee or other committees/ panels of the Legislative Council.

12. Self-financing activities

- 12.1 The VTC shall keep a separate set of accounts for the full costs of its self-financing activities, and ensure that there is no cross-subsidisation in money or in kind between its subvented Programmes and self-financing activities.

Part III - Miscellaneous

13. Conditions of Service for Staff in VTC

- 13.1 The VTC shall determine its staffing structure and appoint its own staff on terms and conditions of service determined by the VTC subject to the total provision for staff expenses not being exceeded. The VTC shall not offer terms and conditions which are superior to those provided by the Government to comparable grades in the civil service.

14. Access to Records and Accounts

- 14.1 The SEM, or any other officers authorised by him/her, will have access to the records (save those personal data pertaining to the VTC's complaint cases) and accounts of the VTC in relation to fulfilling his functions as the Controlling Officer. The VTC will be obliged to explain to the SEM (or any officers authorised by him/her) any matters relating to the income, expenditure or custody of any money derived from the subventions.

15. Donation

- 15.1 Funds to meet recurrent commitments arising from the donations to the VTC will not be provided by the Government unless SEM's (or any other officers authorised by him/her) prior approval to the acceptance of the donations and the conditions attached to these has been obtained.

15.2 Donations and income derived therefrom will be separately identified in the accounts of the VTC.

16. Insurance

16.1 The VTC should meet its own insurance requirements, including the need to insure its own premises.

17. Regulations and Procedures

17.1 The VTC shall draw up its own rules for matters such as regulation and control of its finances, personnel and procurement procedures, having regard to the prevailing practices of the Government.

Signatories -

(Joseph W P WONG)
Secretary for Education and Manpower

(K Y YEUNG)
Chairman,
Vocational Training Council