

## **LegCo Panel on Education**

### **Consequential changes arising from review of private school policy**

#### **Purpose**

The purpose of this paper is to brief Members on the latest developments of implementing various initiatives arising from the review of private school policy.

#### **Background**

2. In the Legislative Council Brief “Review of Private School Policy” issued on 16 March 1999, Members were informed of the following Government initiatives to foster the development of quality Direct Subsidy Scheme (DSS) schools and private independent schools (PISs): -

(a) two government-built secondary school premises will be allocated for operation as non-profit-making DSS schools from the 2000/01 school year under a ten-year service agreement. 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. DSS applicants will be allowed to apply together with prospective aided school operators for government-built premises to be allocated in the 2000/01 school year. Other things being equal, preference will be given to DSS schools;

(b) two sites in Diamond Hill and Siu Lek Yuen respectively will be granted by private treaty at a nominal premium to school operators for the construction and operation of non-profit-making PISs under a ten-year service agreement. 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, will be provided to these operators; and

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

3. The LegCo Panel on Education was briefed on the above on 30 March 1999 and was in general agreement with the arrangements.

### **1999 Allocation Exercise**

4. In furtherance of the above initiatives, we invited in late March 1999 prospective school sponsoring bodies to apply for the allocation of government-built premises for operation as DSS schools, and for the allocation of sites for the construction and operation of PISs. The response was enthusiastic; a total of 32 applications (16 for DSS schools and 16 for PISs) were received. A School Allocation Committee (SAC) chaired by the Director of Education and comprising government representatives and non-official members was formed to consider the applications. The SAC completed its deliberation in July 1999. Given the high quality of applications, the SAC decided to allocate a total of four school premises (one each in Shatin, Siu Sai Wan, Kwun Tong and West Kowloon) for the operation of DSS schools. On PISs, there were likewise a good number of deserving proposals. After careful deliberation, two sponsoring bodies were allocated the sites in Siu Lek Yuen and Diamond Hill respectively. A list of successful applicants is at Annex A.

### **Next Allocation Exercise**

5. Given the encouraging response received in the last round of exercise and the generally positive reaction from the education sector and the public to our initiative, we will continue the programme to provide land and capital grants for the development of PIS, and to allocate government-built secondary and primary school premises for operation as DSS schools. In the coming round of allocation exercise, we will, depending on the quality of applications, allocate up to three sites (in Yau Ma Tei, Shamshuipo and Ma On Shan respectively) for PIS development. In addition, a total of ten primary and seven secondary school premises, to be built by Government, will be made available to both aided school and DSS school applicants for operation starting from 2001/02 and

2002/03 school years. Other things being equal, preference will be given to DSS applicants. Finally, we will allocate three sites (in Yuen Long, Siu Sai Wan and Tsing Lung Tau respectively) for school sponsors to construct and operate either aided or DSS schools. Successful applicants will receive a capital subvention, in accordance with established Government policy, for the construction of the school premises.

6. The Education Department is now inviting interested school sponsors to put forward applications. In considering the applications, the SAC will follow two basic principles. First, as with the last round of allocation exercise, only good quality applications will be accepted. Secondly, the SAC will ensure that there will be adequate public sector school places (i.e. aided school or government school places) to meet Government's established policy of providing nine year free education, and a highly subsidized senior secondary education.

7. All successful applicants will be required to enter into a ten-year service agreement with Government.

### **Revision to recurrent subsidy formula for non-profit-making local DSS schools**

8. The recurrent subsidy for a non-profit-making local DSS school is derived with reference to the average unit cost of an aided school place, the number of operating years of the DSS school, and the school fees charged by the school. The spirit is that a school which charges a higher school fees will receive less subsidy, and vice-versa. Schools are categorised into three income bands for this purpose. However, the existing income bands cannot fully reflect the intended relationship between the amount of fees charged and the amount of subsidy receivable. Thus, starting from the 2000/01 school year, we will revise the income bands to better rationalise the arrangements. Details of the existing and the new arrangements are set out in Annex B.

9. At present, annual school fees charged by non-profit-making local DSS schools range from \$170 to \$11,000. Under the current income banding system, they are all in Band I, i.e. they are receiving the full DSS

recurrent subsidy. If their fees remain unchanged after the new income banding comes into effect, they will still be in Band I and will therefore still be eligible for full recurrent subsidy.

### **Extension of DSS to primary schools**

10. As mentioned in paragraph 2 (c) above, starting from the 2000/01 school year, we will be extending DSS to non-profit-making local primary schools. The basis for calculating the recurrent subsidy for DSS primary schools will be the same as that for determining the recurrent subsidy for DSS secondary schools (see paragraph 8 above). A table showing the recurrent subsidy receivable by DSS primary and secondary schools for the 2000/01 school year is at Annex C.

### **Preservation of provident fund benefits for ex-aided school teachers in DSS schools**

11. Currently, teachers in aided schools are covered by either the Grant Schools Provident Fund or the Subsidized Schools Provident Fund. The two Funds are statutory schemes governed by subsidiary legislation made by the Chief Executive in Council under the Education Ordinance (Chapter 279). Both the teachers and Government make contributions to the Funds. Under existing legislation, non-aided school teachers, including DSS school teachers, are not eligible for joining the two statutory provident fund schemes. Also, once aided school teachers cease to be employed by the aided school sector, they can no longer stay in the schemes.

12. From discussion with the education sector, we understand that one of the main concerns of aided schools when they consider whether to join DSS is whether their teachers' existing provident fund benefits could be preserved upon their change of status from aided to DSS. We also understand that, under the current arrangements, DSS schools, especially newly set up DSS schools, are in a more disadvantageous position vis-a-vis aided schools as regards the recruitment of experienced (aided school) teachers.

13. In view of the above, we are working on legislative amendments

to preserve the provident fund benefits of aided school teachers when they join DSS schools. The broad thrust of our proposals is—

- (a) When an aided school switches to DSS, its serving teachers can choose to stay in the relevant statutory provident fund scheme, or opt for another provident fund scheme offered by the (newly established) DSS school; and
- (b) When a teacher of an aided school leaves the school and joins a DSS school, he may similarly choose to stay in the statutory provident fund scheme or opt for another provident fund scheme offered by the DSS school.

In both cases, if the teacher elects to stay in the statutory provident fund scheme, he and his employer (i.e. the DSS school) will have to contribute to the fund. The proposal is therefore cost neutral to Government.

14. The above arrangements will be restricted to teachers switching for the first time only. If the teacher subsequently joins another school other than aided schools, he can no longer stay in the statutory provident fund.

Education and Manpower Bureau  
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**Results of 1999 Allocation Exercise**

Category	Successful Applicant	Location
Direct Subsidy Scheme (DSS) Schools	Hong Kong Management Association	West Kowloon Reclamation, Yau Ma Tei
	Chinese History & Culture Educational Foundation	Siu Sai Wan, Chai Wan
	Fukien Middle School	Lok Wah Estate, Kwun Tong
	East Asian Educational Association	Area 77, Sha Tin
Private Independent Schools (PISs)	Yew Chung Education Foundation	Siu Lek Yuen, Sha Tin
	Hong Kong International Institute of Music	Po Kong Village Road, Diamond Hill

**Revised Income Bands for Subsidy  
for Non-profit-making Local DSS Schools**

The existing recurrent DSS subsidy is based on a three banding system having regard to the fees charged by the school<sup>(Note 1)</sup>. According to the formula, if the fees charged by a school fall within the range in Band II, then for every additional dollar charged in school fees the DSS subsidy will be reduced by the same amount. Hence, schools have no incentive to charge fees falling within Band II. This means that schools will be “driven” to charge either very low fees (within Band I) or very high fees (within Band III). We believe that we should revise the formula to better rationalize the amount of recurrent subsidy payable to schools charging different fee levels.

2. We will therefore introduce a revised formula. The basic principles of the existing system will be preserved. The subsidy, as in the case of existing system, will still be paid on the basis of the average unit cost of an aided school place (X). The maximum rate of the subsidy will remain equivalent to X; the higher the fees charged by a DSS school, the lower the subsidy. However, instead of the existing three banding system, subsidy will be paid on a two banding system according to the fees charged by the school. Schools charging fees at or below  $\frac{1}{3} X$  will be given the full subsidy at X. Schools charging fees above  $\frac{1}{3} X$  will

<sup>(Note 1)</sup> DSS schools are paid a government subsidy based on a three banding system as follows :

<u>Band</u>	<u>Fee (excluding standard fees but including subscription)</u>	<u>Subsidy</u>	<u>Total Income range (excluding standard fees but including subscription)</u>
I	0 to $\frac{2}{3} X$	X	X to $1\frac{2}{3} X$
II	between $\frac{2}{3} X$ and $1\frac{5}{12} X$	between X and $\frac{1}{4} X$	$1\frac{2}{3} X$
III	$1\frac{5}{12} X$ or more	$\frac{1}{4} X$	$1\frac{2}{3} X$ or more

X = unit cost of an aided place

start to have the subsidy reduced. For every additional dollar charged, the DSS subsidy will be reduced by fifty cents. The new formula will be as follows:

<u>Band</u>	<u>Fee</u> (excluding standard fees but including subscription)	<u>Subsidy</u>	<u>Total Income range</u> (excluding standard fees but including subscription)
I	0 to $\frac{1}{3}X$	X	X to $1\frac{1}{3}X$
II	$\frac{1}{3}X$ to $2\frac{1}{3}X$ and beyond	X to 0	$1\frac{1}{3}X$ to $2\frac{1}{3}X$ and beyond

X = unit cost of an aided place

3. We think it is reasonable to reduce the recurrent subsidy at an earlier point (when school fees equal  $\frac{1}{3}X$ ) than the current cut-off point (when school fees equal  $\frac{2}{3}X$ ), since we will be providing DSS schools with capital assistance for slope and major repairs and upgrading of school facilities. Therefore, there should be less of a need for DSS schools to rely on school fees to finance their capital expenditure.

4. Unlike the existing system where we would provide a minimum subsidy equivalent to  $\frac{1}{4}X$  irrespective of the level of school fees levied, subsidy under the new banding system will progressively be reduced until no subsidy is provided. The rationale behind this arrangement is that, in the interest of a more equitable deployment of public resources, schools charging expensive fees should cease to receive recurrent subsidy (although they will continue to be eligible for non-recurrent subsidy).

**Recurrent subsidy for DSS schools for 2000/01****1. Amount of annual subsidy per student paid to DSS schools below 16 years of history <sup>(note 1)</sup>.**

Level & Mode of Operation	Fee Range \$	Subsidy Range \$	Total Income Range \$
<b>Band I <sup>(note 2)</sup></b>			
Primary - Whole Day	0 - 6,680	20,041	20,041 - 26,721
- Bi-sessional	0 - 6,061	18,184	18,184 - 24,245
Secondary - S1 - 3	0 - 9,057	27,170	27,170 - 36,227
S4 - 5	0 - 13,311	24,782	24,782 - 38,093
S6 - 7	0 - 23,581	44,492	44,492 - 68,073
<b>Band II <sup>(note 2)</sup></b>			
Primary - Whole Day	6,681 - 46,762	20,041 - 0	26,722 - 46,762
- Bi-sessional	6,062 - 42,429	18,184 - 0	24,246 - 42,429
Secondary - S1 - 3	9,058 - 63,397	27,170 - 0	36,228 - 63,397
S4 - 5	13,312 - 62,875	24,782 - 0	38,094 - 62,875
S6 - 7	23,582 - 112,565	44,492 - 0	68,074 - 112,565

**2. Amount of annual subsidy per student paid to DSS schools with 16 years or above history <sup>(note 1)</sup>.**

Level & Mode of Operation	Fee Range \$	Subsidy Range \$	Total Income Range \$
<b>Band I <sup>(note 2)</sup></b>			
Primary - Whole Day	0 - 7,673	23,019	23,019 - 30,692
- Bi-sessional	0 - 6,438	19,313	19,313 - 25,751
Secondary - S1 - 3	0 - 9,535	28,605	28,605 - 38,140
S4 - 5	0 - 13,692	25,925	25,925 - 39,617
S6 - 7	0 - 24,123	46,119	46,119 - 70,242
<b>Band II <sup>(note 2)</sup></b>			
Primary - Whole Day	7,674 - 53,711	23,019 - 0	30,693 - 53,711
- Bi-sessional	6,439 - 45,064	19,313 - 0	25,752 - 45,064
Secondary - S1 - 3	9,536 - 66,745	28,605 - 0	38,141 - 66,745
S4 - 5	13,693 - 65,542	25,925 - 0	39,618 - 65,542
S6 - 7	24,124 - 116,361	46,119 - 0	70,243 - 116,361

Note 1 : DSS schools of a longer than average history incur higher maintenance cost and higher salary expenditure for more experienced teachers. The DSS subsidy rate is therefore calculated according to the years of establishment of DSS schools.

Note 2 : See Annex B for an explanation of the banding system.