

## **ITEM FOR FINANCE COMMITTEE**

### **HEAD 40 - EDUCATION DEPARTMENT**

**Subhead 300 Code of Aid for primary schools**

**Subhead 305 Code of Aid for secondary schools**

**Subhead 320 Code of Aid for special schools**

Members are invited to approve a departure from the existing annual adjustment mechanism for the Operating Expenses Block Grant in the 2002/03 school year. The departure entails -

- (a) a downward adjustment of the rates of the Operating Expenses Block Grant by 1.65%, instead of by 3.3% reflecting the movement of the Composite Consumer Price Index between June 2001 and June 2002; and
- (b) the deferment of the remaining 1.65% downward adjustment to later years by not making any upward adjustments in the grant rates until the outstanding reduction is fully offset.

### **PROBLEM**

Some aided schools have difficulties in coping with a downward adjustment of the Operating Expenses Block Grant (OEBG) by 3.3% in the 2002/03 school year in accordance with movements of the Composite Consumer Price Index (CCPI).

**/PROPOSAL .....**

## PROPOSAL

2. In determining the OEBG rates for the 2002/03 school year, we propose to depart from the approved mechanism of adjusting the existing OEBG rates in accordance with movements of the CCPI. Specifically, we propose a downward adjustment of only 1.65% to the OEBG rates of the 2001/02 school year to arrive at the rates for the 2002/03 school year. The remaining 1.65% will be deferred, in that we will not be making any upward adjustments in the OEBG rates in future years until the outstanding 1.65% reduction is fully offset.

## JUSTIFICATION

3. In May 2000, this Committee approved the consolidation of various recurrent grants for aided schools into a recurrent block grant called "OEBG" which would be adjusted annually in accordance with movements of the CCPI. In accordance with this annual adjustment mechanism, the rates of the OEBG were adjusted downward by 1.1% for the first time in the 2001/02 school year, in accordance with the movement of the CCPI between June 2000 and June 2001. Noting that individual schools might have cashflow problems in the 2001/02 school year when school managements were still accumulating experience in managing the OEBG, we advanced to aided schools, in the same school year, an amount equivalent to the reduction from the OEBG due to the schools in the 2002/03 school year. The understanding with the aided school sector was that this relief measure, which involved the creation of an advance account by the Government pursuant to section 20 of the Public Finance Ordinance (Cap 2), was an exceptional and one-off arrangement.

4. The CCPI registered a further downward movement of 3.3% between June 2001 and June 2002. This would mean a corresponding reduction of the rates of the OEBG, on top of the amount which the Government has already recovered from the grants for schools in the 2002/03 school year to offset the sum advanced under the relief measure for the 2001/02 school year. We recognise that prices have come down in the past year and that a reduction of the rates of the OEBG is appropriate. Some school managements have, however, expressed concern over the adverse effect that a downward adjustment in two successive years of this magnitude might have on the quality of education in schools.

5. We have examined the accounts of aided schools and discussed the matter with the four school councils (viz. the Hong Kong Special Schools Council, the Subsidized Primary Schools Council, the Hong Kong Subsidized Secondary Schools Council and the Grant Schools Council) as well as some school sponsors. Taking fully into account the views of the school councils and school sponsors, our conclusions are -

- (a) a 3.3% reduction of the rates of the OEBG according to the movement of the CCPI would place some aided schools in a difficult financial position. To illustrate, this percentage reduction would mean a reduction in the grants for a standard primary school by around \$80,000 and a standard secondary school by around \$150,000;
- (b) there are limitations as to how far these aided schools could use their reserves or redeploy funds among the constituent grants to tackle the financial difficulties, given the plans of the school management to invest in education. A downward adjustment of 1.65% (which is half of the CCPI movement) is more affordable; and
- (c) with the OEBG in place for two years, we should conduct a review of its operation, with particular emphasis on the adjustment mechanism. We aim to complete the review in early 2003.

6. The proposal detailed in paragraph 2 above enables us to strike a balance between the needs of the aided schools and the need to ensure the cost-effective deployment of public money in a deflationary environment. It is a transitional measure pending completion of our review.

## **FINANCIAL IMPLICATIONS**

7. As a result of the proposal to reduce by a percentage smaller than the CCPI movement, the Government will have to incur an additional expenditure, in terms of savings foregone, of \$52 million for the 2002/03 school year. This would continue, if at different magnitudes, until the grant rates have picked up to levels at which future increases are sufficient to offset fully the 1.65% reduction not effected in the 2002/03 school year.

8. There is sufficient provision in the relevant subheads to absorb the additional expenditure of the above proposal in 2002-03. We will make sufficient provision for subsequent years in the annual draft Estimates.

**/BACKGROUND .....**

**BACKGROUND INFORMATION**

9. Prior to the 2000/01 school year, recurrent subventions to aided schools were provided in the form of individual grants and the scope for redeployment among the grants was generally limited. There was also limited scope for schools to keep unused funds in one year for use in future years.

10. The introduction of the OEBG with effect from the 2000/01 school year has provided greater funding flexibility in support of school-based management. Schools may also retain unused funds for up to 12 months' provision. This compares to the previous accumulation ceiling which varied from three months' to 12 months' provision for different constituent grants. The standardisation of price adjustment mechanism across the constituent grants has also facilitated the administration of the OEBG by aided schools and the Government.

11. We consulted the Legislative Council Panel on Education on the above proposal on 28 October 2002. The Panel did not raise any objection to the proposal.

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Education and Manpower Bureau  
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