

**LegCo Panel on Education**

**Annual Adjustment of Rates of  
Operating Expenses Block Grant for Aided Schools**

**Purpose**

This paper seeks Members' advice on the annual adjustment of the rates of the Operating Expenses Block Grant (OEBG) for aided schools.

**Background**

2. 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 limited. Further, since the grants were introduced at different times, different price indices or benchmarks were adopted to revise the rates. The administration of the system of grants was rigid and complex.

3. On 12 May 2000, the Finance Committee (FC) of the Legislative Council approved the consolidation of various non-salary recurrent grants for aided schools into a recurrent block grant, known as OEBG, with effect from the 2000/01 school year to provide more funding flexibility to schools and to simplify the administration of non-salary grants. FC also approved that the OEBG should be adjusted annually according to movement of the Composite Consumer Price Index (CCPI). To give schools more flexibility in cashflow management, aided schools are also allowed to accumulate a reserve of up to 12 months' provision.

4. On the basis of the CCPI movement, the OEBG rates should be adjusted downwards by 1.1% in the 2001/02 school year. However, some schools encountered cashflow problems due to civil service salary adjustment of +2.38% in April 2001. As it would take time for school management to maximize the benefit of the flexibility provided by the OEBG, we decided to make an advance to aided schools, on an exceptional and one-off basis, equivalent to the reduction of 1.1% from the OEBG in the 2001/02 school year. This amount of advance was recovered from schools in the 2002/03 school year.

5. For the 2002/03 school year, the CCPI again registered a downward movement of 3.3%. Again, to give schools more time to work out their resource plans, we proposed and FC approved on 8 November 2002 that in the 2002/03 school year, the OEBG rates would be adjusted downwards by 1.65%, instead of 3.3%, and the remaining 1.65% downward adjustment would be recovered in later years.

### **Problem**

6. Hong Kong is likely to continue to experience deflation for a couple of years. Continuing downward adjustment of the OEBG rates has caused concern amongst clerical staff and janitors whose salaries are paid out of the OEBG.

### **Proposal**

7. We propose -

- (i) to recover the remaining 1.65% downward adjustment carried over from the 2002/03 school year when we release the OEBG payment for the 2003/04 school year;
- (ii) to defer implementation of the 2003/04 adjustment, in accordance with the CCPI movement between June 2002 and June 2003, to January 2004; and
- (iii) to speed up the review of school grants with a view to merging the grants and allowing more flexibility in the use of grants. The aim is to implement the new arrangements in the 2004/05 school year.

8. We also propose to allow schools to transfer any of their surplus funds in the Special Domain of OEBG<sup>1</sup> to cover any shortfall in the General Domain for paying the salaries for administration/clerical/janitor staff.

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<sup>1</sup> The OEBG comprises a General Domain under which schools are free to set flexibly the allocations for each constituent grant, and a Special Domain for funds, which schools can only use for specified purposes. Surplus of the General Domain can be used to top up expenditures on Special Domain items and items chargeable to other government subsidies outside the OEBG. Under the current arrangement, for constituent grants within the Special Domain, no transfer is allowed among them, and funds in this domain cannot be transferred out.

## **Justification**

9. According to the 2001/02 expenditures of aided schools, the Administration Grant (AG) or Revised Administration Grant (RAG) constituted, on average, about 50% of the OEBG provision. The proportion in respect of aided primary, secondary and special schools was around 40%, 60% and 50% respectively. An analysis of the 2000/01 and the 2001/02 audited accounts showed that the overall utilization rate of the AG/RAG was 93.5% in 2000/01 and 93.8% in 2001/02, i.e. not all allocated funds were exhausted. In fact, about 50% of the schools had accumulated a surplus up to \$0.2 million while another 20% of the schools a surplus ranging from more than \$0.2 million to \$1.4 million. Considering the OEBG General Domain alone, which includes the AG/RAG, over 70% of the schools had accumulated a surplus ranging from more than \$0.2 million to \$3.6 million. Schools which do not have sufficient funds in the AG/RAG to cover staff salaries can make use of the flexibility for virement of funds between constituent grants under the General Domain to top up the difference.

10. So, the vast majority of schools should not have cashflow difficulty if the Administration were to claw back 1.65% deferred price adjustment carried over from last year, when releasing the OEBG for 2003/04. The forecast of the CCPI for 2003 as a whole is -1.5%. To reduce the impact of an aggregate price adjustment of about -3.15%, we propose to defer the latter price adjustment to January 2004 when there will be an overall civil service salary adjustment of -3%.

11. It has been suggested in some quarters that the cost of clerical and janitor support should be covered under the Salaries Grant, instead of the AG/RAG. We do not support the proposal because schools generally welcome the flexibility to vary the establishment of clerical and janitor staff. Indeed, some schools have contracted out janitor services and found the arrangements to be more cost-effective and more able to meet their specific needs. To revert to the Salaries Grant for clerical and janitor staff would be a retrograde step which we do not recommend.

12. For schools that do not have sufficient surpluses in their General Domain to cover costs, we propose, subject to FC approval, to allow these schools to transfer their Special Domain surpluses to top up the AG/RAG items. We note that according to the 2000/01 and the 2001/02 audited accounts received from aided schools, over 99% of these schools had a surplus in their Special Domain, of which about 50% had a surplus ranging from more than \$0.2 million to \$3.6 million.

13. In our review of the accounts and the expenditure pattern of aided schools, we have considered the proposal to compile a school-specific CCPI by removing expenditure items in the CCPI which are not relevant to schools. However, it will be difficult to determine the weighting and coverage of items to be included, having regard to the differences in price movements experienced by schools and households for the same/similar items of goods and services<sup>2</sup>. Compilation of a school-specific CCPI will involve a separate school operating expenses survey with dubious benefits.

### **Financial Implications**

14. By effecting the outstanding 2002/03 downward adjustment of 1.65% in the 2003/04 school year, we estimate the savings to be about \$51.5 million. Using the forecast of -1.5% for the CCPI of 2003 as the basis, an additional expenditure will be incurred arising from deferring the price adjustment for the 2003/04 school year to take effect in January 2004. The amount of savings of \$51.5 million will fully offset this additional expenditure of \$15.3 million.

### **Consultation**

15. Five consultation sessions were conducted on 15 and 16 April. We met a total of 46 representatives from 32 organizations, including schools councils, teacher unions, major school sponsors and clerical and janitor unions. While one abstained and another gave support, the remaining 44 representatives raised no objection to our proposal at paragraphs 7 and 8 above.

### **Advice Sought**

16. Members are invited to comment on the proposal in paragraphs 7 and 8 above. Subject to Members' views, the proposal will be submitted to FC for approval.

Education and Manpower Bureau  
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<sup>2</sup> Outlets generally patronized by households may not be the same as those by schools. Households usually purchase consumer goods and services from retail outlets and pay the retail prices. Schools may order materials through bulk purchase and pay discount prices offered exclusively to them.