

LegCo Panel on Education

Operating Expenses Block Grant for the 2002/03 school year

PURPOSE

This paper seeks Members' advice on the adjustment to the rates of the Operating Expenses Block Grant (OEBG) for the 2002/03 school year.

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 generally limited. There was also limited scope for schools to keep unused funds in one year for use in future years.

3. On 12 May 2000, the Finance Committee (FC) of the Legislative Council approved the consolidation of various non-salary recurrent grants into a recurrent block grant called "OEBG" for aided schools with effect from the 2000/01 school year to provide 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 of three months' to 12 months' provision, depending on the nature of the individual grants.

4. Since the constituent grants of the OEBG were introduced at different times, we had been using different price indices or benchmarks to revise the rates of individual grants. With the introduction of the OEBG, FC also approved that the annual price adjustment should be made with reference to one single index, namely the Composite Consumer Price Index (CCPI). This was to facilitate aided schools and Government in administering the OEBG.

5. The first annual price adjustment to the rates of the OEBG was due in the 2001/02 school year. On the basis of the movement of the CCPI between June 2000 and June 2001, the rates were adjusted downwards by 1.1%.

However, 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 agreed to advance an equivalent amount in the 2001/02 school year from the OEBG due to the schools in the 2002/03 school year. 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 taken on an exceptional and one-off basis.

PROBLEM

6. 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 if the adjustment mechanism approved by FC were adhered to, 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 mentioned in paragraph 5 above.

7. We recognise that prices have come down in the past year and that a reduction of the rates of the OEBG is appropriate. We are however concerned about the adverse effect that a downward adjustment in two successive years of this magnitude might have on the quality of education in schools.

CONSIDERATIONS / CONSULTATION

8. 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;

- (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, say, 1.65% (which is half of the CCPI movement) is probably appropriate; and
- (c) with the OEBG in place for two years, the Education Department should conduct a review of its operation, with particular emphasis on the adjustment mechanism. We aim to complete the review in early 2003.

PROPOSAL

9. Pending the outcome of the review, we propose to apply, as a transitional measure, a negative adjustment of 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 and effected when there is any upward adjustment of the grant rate in the future, be it under the existing mechanism based on the CCPI or under a revised mechanism.

FINANCIAL IMPLICATIONS

10. 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 of \$52 million for the 2002/03 school year. The Government would continue to incur additional expenditure annually until the grant rates have picked up to levels at which future increases are sufficient to offset the 1.65% reduction not effected in the 2002/03 school year.

ADVICE SOUGHT

11. Members are invited to advise on the proposal in paragraph 9 above. Subject to members' views, the proposal will be presented to FC for approval on 8 November 2002.

Education Department
October 2002