

## **Funding Flexibility and Support Measures for Schools to Set up Incorporated Management Committees**

### **PURPOSE**

This paper seeks Members' views on a proposal to give greater funding flexibility to provide schools which have established an incorporated management committee (IMC) more autonomy and flexibility over the use of resources. We also propose to provide time-limited support to help schools in establishing and familiarising with the operation of the IMC.

### **BACKGROUND**

2. The objective of school-based management (SBM) is to devolve decision-making relating to student learning and use of resources to the school as far as possible, so as to suit the circumstances of individual schools and the needs of their students. The Education Ordinance provides statutory backing for SBM, requiring schools to submit a draft constitution of the proposed IMC by 1 July 2009 for the purpose of establishing the IMC. The IMC shall consist of all key stakeholders: representatives of the school sponsoring body (SSB), the principal, members of the community, and elected representatives of parents, teachers and past students. Through stakeholders' participation, and a higher degree of transparency and accountability, we expect to see proper checks and balances being put in place within the school to ensure that decisions are made in the best interests of students, and resources are used in a cost-effective manner. Through the IMC, schools are required to be accountable for their performance, in terms of student learning outcomes, to the SSB, parents, the Education and Manpower Bureau (EMB) and the community at large.

3. The IMC is responsible for, among other things, formulating education policies and administrative rules of the school; planning and managing financial and human resources; and ensuring that students are properly educated and individual potential developed to the full. With statutory backing, enhanced participation in decision-making, transparency and accountability, and a system of checks and balances, IMC schools are well-positioned to be devolved with greater funding flexibility and autonomy to fulfil their functions and powers in line with the spirit of SBM.

## **PROPOSAL**

4. When the necessary pre-conditions are in place, including a system of checks and balances with stakeholders' participation within a transparent and accountable framework of governance, IMC schools can be entrusted with greater funding flexibility and autonomy. In this connection, we propose to expand the existing Operating Expenses Block Grant (OEBG) and to introduce a Teacher Relief Grant (TRG) in IMC schools.

### Expanded OEBG

5. We propose to expand the existing OEBG by –
- (a) including more non-salary grants into the OEBG;
  - (b) removing the demarcation between the General Domain and Special Domain;
  - (c) extending the ambit of deployment and relaxing the deployment of surplus to give IMC schools more funding flexibility; and
  - (d) simplifying the computation and adjustment mechanism.

## TRG

6. We propose to introduce TRG for the appointment of supply teachers for IMC schools by merging the centrally-controlled supply teacher grant and the Substitute Teacher Grant.

## **JUSTIFICATION**

7. The Education (Amendment) Ordinance 2004, which has become effective since January 2005, provides legal backing for the participation of all key stakeholders in school management and decision-making. We expect that participatory and transparent school governance will lead to enhanced accountability. This, coupled with a proper financial and resources management system with built-in checks and balances, will help to guard against any abuse of authority or impropriety in the use of resources. Hence, we can only responsibly devolve more funding flexibility to IMC schools.

## Expanded OEBG

8. The subventions to an aided school comprise mainly the salaries grant which accounts for about 85% of the subventions, and administrative and other non-salary operating expenses which are largely grouped under the OEBG. The OEBG, which was introduced in the 2000/01 school year, comprises a number of constituent grants demarcated into the Special Domain and General Domain. A guided approach with pre-set ambits was adopted when we formulated the OEBG in 2000 to ensure schools' gradual change of paradigm in making school-based decisions on financial planning. Hence, constituent grants in the Special Domain are restricted to specified purposes such as conducting school-based programmes for remedial support and guidance service. Virement of funds among the grants within the Special Domain and from within

the Special Domain to usage outside the Special Domain is not allowed. Furthermore, new grants subsequently introduced under various new initiatives are usually grouped in the Special Domain or placed outside the block grant and are subject to more stringent rules on usage.

9. With experience from the implementation of OEBG over the years, coupled with enhanced accountability and transparency through the participation of key stakeholders in decision-making in IMC schools, we are prepared to give IMC schools maximum financial autonomy in the deployment of funds. To this end, we propose to expand the OEBG to include most of the non-salary grants that are formerly outside OEBG and remove the demarcation between the General and Special Domains. In addition, we also propose to relax the restrictions on the use of OEBG surplus so that IMC schools may use the surplus to top up provision for projects approved/funded by the EMB; recurrent expenses arising from other government-funded projects; and furniture and equipment and other facilities or educational services acquired through donation, fund-raising or matching schemes.

10. Currently, for computing the existing OEBG, schools have to submit a range of data each year. Schools are also required to keep track of the expenditure of individual constituent grants. Much administrative work is involved in the process. We therefore propose to simplify the calculation and adjustment of the expanded OEBG.

11. Details of the expanded OEBG are set out at [Appendix I](#). In the case of a 30-class aided whole-day primary school, the expanded OEBG per annum is about \$3 million and that of a 30-class aided secondary school, \$5 million.

## TRG

12. At present, schools can claim reimbursement from the supply teacher grant centrally controlled by EMB, on a case-by-case basis, for appointment of supply teachers to replace teachers on the establishment who take approved leave for three days or more. Schools may also opt to freeze not more than 10% of their teaching establishment and claim the Substitute Teacher Grant.

13. The TRG, which merges the above two elements, will consist of two components: a basic component for the appointment of supply teachers to cover approved leave of teachers and an optional component for encashment, under the respective enhanced rates of the Substitute Teacher Grant, of up to a maximum of 10% of the teaching establishment on a temporary or permanent basis. The basis for computing the TRG is set out at Appendix II. IMC schools will have full flexibility in using the grant for employing temporary staff, buying services or organising staff development activities. The TRG amounts to a maximum of about \$1.3 million per annum for a 30-class aided whole-day primary school and about \$2.1 million for a 30-class aided secondary school, assuming 10% of the teaching establishment is encashed on a permanent basis.

14. The introduction of the TRG will simplify the administration of resources for supply teachers. IMC schools will have enhanced financial support and autonomy in planning their manpower deployment, organising staff professional development and student learning activities, and employment of staff of various disciplines (e.g. social workers or educational psychologists, professional tutors for the career-oriented studies) to meet their school-based needs and the requirements of the various new initiatives including the new academic structure for the senior secondary education. The funding flexibility

will also relieve schools of the chore of having to apply to EMB on a case-by-case basis for supply or substitute teacher to cover teachers on approved leave.

## **IMPLEMENTATION**

15. To facilitate the accounting arrangement, the expanded OEBG and TRG will take effect from the school year following the establishment of the IMC. Since the Education Ordinance requires that aided schools shall submit their draft IMC constitutions by 1 July 2009, it is anticipated that the proposed funding flexibility will be fully implemented by the 2009/10 school year in all aided schools in Hong Kong.

16. Since the passage of the Education (Amendment) Ordinance 2004 in July 2004, we have provided support measures to help schools establish the IMC. The support measures include a sample IMC constitution, guides for manager election, manager training, a web-page entitled “Legal Support Services for IMCs” and an SBM Legal Advisory Panel to resolve legal problems schools encounter in establishing the IMC. In addition, we have taken out an insurance policy to indemnify the professional liabilities of IMCs and their managers.

17. Apart from the central support for the establishment and operation of the IMC, there are school-specific issues which can only be handled by schools and their SSBs. To help resolve these issues, we shall provide to schools a time-limited cash grant to enable them to acquire legal and accounting professional services, engage experienced personnel in supporting the IMC schools in manpower resources planning and financial matters, organise school-based training, and meet the necessary expenditure for setting up and facilitating the smooth operation of the IMC in the initial years. To reap the

maximum benefits of SBM through the operation of IMC, schools need to inculcate a new financial management and manpower planning culture among key stakeholders. Schools with IMCs established in the early years will be requested to share their experiences and help other schools to set up their IMCs. We therefore propose to provide an initial time-limited cash grant of \$350,000 per school per annum in the initial years, which represents an increase of about 10% of administrative and other non-salary operational expenses of aided schools. The grant will be disbursed to schools concerned from the 2005/06 school year leading up to the end of the 2008/09 school year.

18. To support IMCs in stepping up their accountability mechanism in the wake of increased funding flexibility, we will provide guidelines on financial management, including principles of disclosure and accounting convention, and performance indicators, and the setting up of an internal control system with clear delineation of roles and responsibilities. In this connection, EMB will engage a financial management consultant to help develop a template for reference by schools.

19. Schools are required to comply with disclosure requirement with financial information properly reflected in their School Development Plan and the annual School Report which is to be uploaded onto the website of the school. In addition, IMCs will be required to submit to EMB their annual accounts which have been audited by, as stipulated in the Education Ordinance, a certified public accountant (practising) as defined in the Professional Accountants Ordinance.

## **FINANCIAL IMPLICATIONS**

20. Subject to Members' advice, we aim to seek the approval of the Finance Committee on the proposals to provide more funding flexibility to IMC

schools through the expansion of the existing OEBG and the introduction of TRG. Such proposals are cost-neutral since their provisions are based on the existing levels of provisions for aided schools.

## **CONSULTATION**

21. We have consulted major schools councils, education organisations, school heads associations, SSBs on the broad direction of greater funding flexibility for IMC schools. They support the direction. Some principals wish to see the proposed funding flexibility being extended to all schools with or without an IMC. We do not support the request as devolution, without first putting in place the necessary checks and balances expounded in the Education Ordinance, may lead to abuse.

## **ADVICE SOUGHT**

22. Members are invited to give their views on the broad direction of the proposed funding flexibility as set out in paragraphs 4 to 6. We plan to submit the proposal to the Finance Committee for approval on 24 June 2005.

Education and Manpower Bureau

May 2005

**Expanded Operating Expenses Block Grant**

**Aim**

We propose to expand the existing Operating Expenses Block Grant (OEBG) from 51 grants to 59 constituent grants for aided secondary schools and from 20 to 25 for aided primary schools to give IMC schools greater funding autonomy.

**Ambit**

2. In addition to meeting the expenditure requirements of their daily operation, IMC schools may use the expanded OEBG for procurement of stores and equipment; hire of services; as well as employment of teaching or supporting staff outside the approved establishment so as to provide extra liaising support, organise extra-curricular activities for students, enhance professional development of teachers, and other purposes consistent with their school development plans.

**Increased flexibility**

3. The demarcation between the two domains, Special and General<sup>1</sup>, will be lifted so as to give IMC schools greater flexibility in using the grant. Any surplus may be used to top up provision for projects approved / funded by EMB, recurrent expenses arising from other government-funded projects, and furniture and equipment and other facilities or educational services acquired through donation, fund-raising or matching schemes.

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<sup>1</sup> The OEBG comprises a General Domain under which schools are free to set flexibly the allocation for each constituent grant, and a Special Domain for funds which schools can only use for the specified purposes.

## **Simplified computation and adjustment mechanism**

### *Existing Schools*

4. Under the proposed arrangement, the constituent grants<sup>2</sup> will be merged upon the establishment of the IMC. We will take a snapshot of the aggregate of prevailing provision of the constituent grants of each school as the baseline for future adjustment. In subsequent years, adjustment will be made in accordance with the following –

- (a) the level of the aggregate provision will be price-adjusted by the June-on-June movement of the Composite Consumer Price Index (CCPI) each year;
- (b) for the ten school-specific grants<sup>3</sup>, which are of a special nature

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<sup>2</sup> The amount of the current OEBG is determined by the respective constituent grants that individual schools are eligible for. Computation of the constituent grants is based on specific formulae making reference to various elements such as the number of operating classes, the number of pupils and the subjects offered.

<sup>3</sup> The ten school-specific grants include:

- Noise Abatement Grant – for meeting electricity charges for air-conditioners installed in classrooms with noise problems and applicable to those eligible schools;
- Administration Grant / Revised Administration Grant – for paying salaries of janitor and clerical staff and / or hire of cleansing services and applicable to those eligible schools;
- Administration Grant for Academically Low Achievers – for paying salaries of additional clerical support for secondary schools which have admitted a certain number of academically lower achievers and applicable to those eligible schools;
- School-based Remedial Support Grant – for providing additional financial support for remedial teaching and applicable to those eligible schools;
- Capacity Enhancement Grant – for increasing teachers’ capacity and students’ learning;
- Composite Information Technology Grant – for paying recurrent expenses of IT facilities;
- Understanding Adolescent Project (Primary) – for conducting comprehensive programmes for students’ personal growth and resilience;
- Student Guidance Service Grant – for implementation of Comprehensive Student Guidance Service;
- School-based Support Scheme for Schools with Newly Arrived Children – for providing support services to schools with intake of newly arrived children;
- Whole-school Approach to Integrated Education – for meeting expenditure on programmes and activities of the implementation of Integration Education Programme.

and only applicable to selected schools with special circumstances, they will continue to be determined separately in accordance with the prevailing criteria applicable to each of these grants; and

- (c) in the event of a change in the number of operating classes, the aggregate provision will be adjusted by the “average per-class rate<sup>4</sup>” at the time. The rate at the 2004/05 price level is as follows –

Level of school	Average per-class rate
Aided primary school	\$23,000
Aided secondary school	\$37,000 (for S1 to S3)
	\$39,000 (for S4 to S7)

### *New schools*

5. For new schools, the level of provision will be determined by three components –

- (a) basic provision for expenditure required on a per-school basis determined by the territory-wide average of provisions derived by the statistical method of linear regression (denoted by A);
- (b) the number of operating classes (denoted by N) multiplied by the “average per-class rate” (denoted by B); and
- (c) the aggregate of the ten school-specific grants to be determined separately as mentioned above.

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<sup>4</sup> The average per-class rate will be adjusted annually by an annual price adjustment based on CCPI movements.

The expanded OEBG will thus be calculated based on the following formula –

$$\text{Expanded OEBG for a new school} = A + B \times N + \text{ten school-specific grants}$$

The amount for A and B at the 2004/05 price level are as follows:

Level of school	Basic provision (A) <sup>#</sup>	Average per-class rate (B) <sup>#</sup>
Aided primary school	\$168,000	\$23,000
Aided secondary school	\$418,000	\$37,000 (for S1 to S3) \$39,000 (for S4 to S7)

Note:

<sup>#</sup> The values of A & B may be adjusted where necessary, for example, for schools which have not closed their Set-up Fund Accounts. The basic provision and the average per-class rate will be adjusted annually by the annual price adjustment based on CCPI movements.

### *Developing schools*

6. For schools which are currently in the midst of their development stage, they may opt either the method proposed for the existing schools or that for the new schools in paragraphs 4 and 5 respectively.

### **Surplus retention**

7. Schools will be allowed to accumulate surplus up to twelve months' provision of the expanded OEBG of the prevailing year. This is the same as the arrangement for the existing OEBG.

**Teacher Relief Grant**

**Aim**

We propose to revise the existing Substitute Teacher Grant and devolve the centrally controlled supply teacher grant to IMC schools to form a Teacher Relief Grant (TRG). Schools may use the TRG flexibly to cover teachers on approved leave, and teacher development matters, to provide a more diversified curriculum for students by employing supplementary staff or staff of various disciplines to meet their school-based needs as well as to deploy resources for acquiring other additional services in relation to student learning.

**Ambit**

2. Schools may use the TRG to employ temporary teachers or other supporting staff, or acquire external services to provide more diversified curriculum for students or organise staff training / professional development.

**Funding arrangements**

3. The TRG is made up of two components. First, IMC schools will be given a basic annual recurrent cash grant to arrange for supply teachers, where necessary, to replace teachers on approved leave, training, exchange programmes or study tour in accordance with the school-based criteria determined by the IMC. The first component of the cash grant will be calculated according to the approved teaching establishment of the school as follows:

$$\boxed{2.5 \text{ man-days}} \times \boxed{\text{Number of teachers on the approved establishment}} \times \boxed{\text{The daily rate of pay for the respective grade of supply teacher}}$$

4. Second, IMC schools may opt to obtain a cash grant by freezing up to 10 % of their teaching establishment. Schools are free to decide whether to cash any teaching post and, if so, the percentage. For permanent freezing, the cash grant will be calculated at mid-point salary of the posts concerned. The permanent freezing will be irrevocable. For temporary freezing for 90 days or more, it will be calculated at the average monthly salary point of temporary teachers. Schools may review the situation after the temporary freezing arrangement has been implemented for some years.

5. With this provision, IMC schools will no longer have to apply for daily-paid supply teachers or the Substitute Teacher Grant to cover approved leave of teachers of less than 90 days. However, they can continue to apply for reimbursement to employ daily-paid replacement for teachers on maternity leave or other approved leaves (including sick leave) lasting for 30 but below 90 days. For approved leave (including sick leave) lasting for 90 days or more, the prevailing practice of applying for monthly-paid temporary teachers will continue.

### **Surplus retention**

6. Schools will be allowed to accumulate surplus up to three times the annual provision of the TRG in the prevailing year. Deployment of the surplus is confined to the permitted use of TRG and cannot be used for purposes outside of TRG.