

## **ITEM FOR FINANCE COMMITTEE**

### **HEAD 156 – GOVERNMENT SECRETARIAT : EDUCATION BUREAU**

#### **Subhead 700 General Non-recurrent**

#### **Item 952 Grant to the Hong Kong Examinations and Assessment Authority for temporary accommodation of a centralised onscreen marking centre on Hong Kong Island**

#### **Subhead 700 General Non-recurrent**

#### **New Item “Grant for conducting the 2011 Hong Kong Certificate of Education Examination and the 2013 Hong Kong Advanced Level Examination for private candidates”**

Members are invited to approve –

- (a) an increase in commitment for the rental of a centralised onscreen marking centre of the Hong Kong Examinations and Assessment Authority on Hong Kong Island from \$16 million by \$41.15 million to \$57.15 million to meet the rental and related costs for about five years; and
- (b) the creation of a new commitment of \$90.65 million as a one-off funding support to the Hong Kong Examinations and Assessment Authority to meet the expenses in conducting the 2011 Hong Kong Certificate of Education Examination and the 2013 Hong Kong Advanced Level Examination for private candidates.

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## PROBLEM

The Hong Kong Examinations and Assessment Authority (HKEAA) needs funding support to continue renting an accommodation for its temporary onscreen marking (OSM) centre on Hong Kong Island for a further period of about five years, and to conduct the Hong Kong Certificate of Education Examination (HKCEE) and the Hong Kong Advanced Level Examination (HKALE) for private candidates in 2011 and 2013 respectively.

## PROPOSAL

2. The Secretary for Education proposes -
  - (a) to provide a further grant of \$41.15 million to HKEAA to meet the rental and related costs of continuing the operation of the temporary Island OSM Centre for a further period of about five years; and
  - (b) to provide a grant of \$90.65 million as a one-off funding support to HKEAA to meet the expenses in conducting the 2011 HKCEE and the 2013 HKALE for private candidates.

## JUSTIFICATION

### *Meeting rental cost for the temporary Island OSM Centre*

#### *Centralised OSM*

3. HKEAA first introduced the use of OSM in 2007 to facilitate the marking of public examination answer scripts. It plans to expand the number of subjects marked by OSM progressively, paving the way for full implementation under the Hong Kong Diploma of Secondary Education Examination (HKDSEE), and to set up a total of four permanent OSM centres across the territory to provide reasonable accessibility for over 4 000 markers. Two permanent OSM centres have already been established in vacant school premises in Kowloon West and New Territories West with government funding (vide FCR(2005-06)33), one temporary centre in New Territories East with HKEAA's own funds and another temporary one on Hong Kong Island with government funding (vide FCR(2006-07)18)<sup>1</sup>. We need to extend the operation of the Island centre for the reasons below.

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<sup>1</sup> Outside the annual public examination period from April to August, HKEAA utilises these OSM centres for other examinations and assessments (such as the Territory-wide System Assessment and various international and professional examinations which HKEAA administers for its clients) and for conducting training and briefings for teachers, markers and other examination/assessment personnel.

*Time for mapping out and implementing HKEAA's long term accommodation plan*

4. The original long term accommodation plan for HKEAA was to use the ex-North Kowloon Magistracy Building (ex-NKMB) in Sham Shui Po as HKEAA headquarters, hence freeing up its existing offices in Wan Chai and San Po Kong (both provided by the Government) for conversion into the permanent Island and Kowloon East OSM Centres by around 2010. However, the proposed ex-NKMB development plan could not be further pursued because it was subsequently included in the Revitalising Historic Buildings Through Partnership Scheme in 2008.

5. Despite our subsequent effort to identify alternative long-term accommodation for HKEAA, no suitable surplus government premises or vacant school premises could be identified as the HKEAA permanent headquarters or permanent OSM centres<sup>2</sup>. According to HKEAA's revised accommodation plan, its existing offices in San Po Kong will be re-developed as the permanent headquarters which will also house the permanent Kowloon East OSM Centre. Its existing office in Wan Chai will be moved to the new HKEAA headquarters and the vacated office premises will be converted into the permanent Island OSM Centre.

6. HKEAA is now conducting relevant studies and making preparations for the re-development of its existing premises in San Po Kong into its new headquarters. Taking into account the lead time required, HKEAA expects that the temporary Island OSM Centre will need to continue operation in commercial premises for about five more years. The approved grant of \$16 million vide FCR(2006-07)18 to cover the rental for the temporary Island OSM Centre was used up in May 2010. HKEAA has been absorbing the rental since June 2010 from within its reserve, but will not be able to sustain it for much longer. We therefore propose to provide a further grant of \$41.15 million to HKEAA to meet the rental cost for a further period of about five years from December 2010 until the establishment of a permanent Island OSM Centre.

*Conducting the 2011 HKCEE and the 2013 HKALE for private candidates*

7. Upon the implementation of the new senior secondary academic structure in the 2009/10 school year, the new HKDSEE will replace the HKCEE and the HKALE, and the last cohort of HKCEE and HKALE candidates took/will

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<sup>2</sup> With the assistance of relevant government departments, five vacant sites/premises have been proposed for the development of HKEAA headquarters and four other vacant premises for the Island OSM Centre. The sites/premises were however found to be unsuitable mainly because of inconvenient access or insufficient area.

take the respective examinations in 2010 and 2012. In order to provide a further opportunity for students who wish to improve their HKCEE and HKALE results so that they would not regard the introduction of HKDSEE in 2012 as a “dead end”, HKEAA will conduct the two examinations for the last time for private candidates in 2011 and 2013 respectively.

8. The number of private candidates that have applied for the 2011 HKCEE is 29 619 (23.3% of the 2010 candidature). Using the statistics on the number of private candidates taking the HKALE in the past three years for projection, it is estimated that there will be about 8 350 private candidates sitting for the 2013 HKALE (21% of the 2010 candidature). The estimated income (including income from examination fee and supplementary fees on applications for change of schedule, rechecking and remarking, etc.) from the 2011 HKCEE and the 2013 HKALE (assuming that the examination and other fees remain at the 2011 level) will be about \$22.94 million and \$17 million respectively, which will be only 18.7% and 16.7% of the income from the respective examinations in 2010.

9. Despite the considerable reduction in the candidature, the costs for conducting the two examinations would not reduce proportionately as many cost items (e.g. administration/operation expenses, staff and examination personnel costs for setting question papers and marking schemes, modification of information technology systems etc.) are not proportional to the size of the candidature. It is estimated that the costs for conducting the 2011 HKCEE and the 2013 HKALE for private candidates will be about \$64.75 million (44.9% of the 2010 HKCEE) and \$65.84 million (64.1% of the 2010 HKALE) respectively. In other words, it is estimated that conducting the 2011 HKCEE and the 2013 HKALE will lead to deficits of about \$41.81 million and \$48.84 million respectively.

10. In order that HKEAA will not be under pressure to introduce drastic fee hikes and impose any undue financial burden on the private candidates, we propose to make a one-off grant, capped at \$90.65 million, to HKEAA to cover the anticipated deficits. The proposed grant will be disbursed to HKEAA on a reimbursement basis. The amount is meant to be a ceiling in that it will be reduced correspondingly if the deficits are found to be smaller than anticipated, and if any surplus will arise from conducting the 2012 HKALE.

#### ***HKEAA's need for funding support***

11. As a self-financing body, HKEAA should finance its recurrent operations with its own means. However, since HKEAA is the only statutory assessment authority in Hong Kong and a strategic partner of the Government in

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providing a quality education system and supporting the new senior secondary academic structure, the Government has subsidised its accommodation requirements and provided one-off non-recurrent funding where justified.

12. HKEAA has critically reviewed its financial position and confirms that it will have grave difficulty in absorbing the rental cost of the temporary Island OSM Centre from December 2010 and coping with the huge deficits of conducting the 2011 HKCEE and the 2013 HKALE. The unaudited reserve of HKEAA by the end of the 2009-10 financial year (ending 31 August 2010) was about \$88.1 million (about 21.9% of its annual recurrent expenditure). It has to devote a lot of resources to prepare for the launch of the HKDSEE in 2012. Without the proposed funding support by the Government, HKEAA's reserve will drop drastically to only about \$29.2 million (about 5.6% of its annual recurrent expenditure) by the end of the 2011-12 financial year. Provision of the proposed grants is essential for HKEAA to continue its operation on a sound financial basis and to avoid drastic fee hikes.

## **IMPLEMENTATION PLAN**

13. The current tenancy of the temporary Island OSM Centre is up to 31 August 2011. Subject to Members' support, HKEAA will proceed to negotiate with the landlord to stay in the existing premises. If the tenancy of the existing premises cannot be renewed and HKEAA needs to identify suitable new premises, we consider it reasonable for HKEAA to aim at Grade B<sup>3</sup> office premises with good security, central air-conditioning and high accessibility by public transport. HKEAA will not go for high-end premises that are costly and unnecessary for its purpose.

14. HKEAA started the registration and preparation work for the 2011 HKCEE in September 2010 and the examination will be held from April to June 2011. The registration and preparation work for the 2013 HKALE will start in September 2012 and the examination period will run from March to May 2013.

## **FINANCIAL IMPLICATIONS**

15. Subject to Members' approval, we will provide a total grant of \$131.8 million to HKEAA to continue renting premises for the temporary Island OSM Centre for a further period of about five years and to meet the deficits in conducting the 2011 HKCEE and the 2013 HKALE as follows –

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<sup>3</sup> Grade B private office premises refer to those with ordinary design and good quality finishes, flexible layout, average-sized floor plates, adequate lobbies, central or free-standing air-conditioning, adequate lift services and good management. Parking facilities are not essential. The temporary Island OSM Centre is currently occupying Grade B office premises.

Items	Estimated Cost (\$ million)
(a) Commercial rental for the temporary Island OSM Centre for about five years	41.15
(b) Conducting the 2011 HKCEE and the 2013 HKALE	90.65
<b>Total amount of proposed grant</b>	<b>131.80</b>

16. The estimate for the non-recurrent grant of \$41.15 million for the temporary Island OSM Centre is based on the monthly rental (including management fee and central air conditioning charges) under the current tenancy agreement (\$216.8 per m<sup>2</sup> of about 1 800 m<sup>2</sup> of net usable area) from December 2010 until its expiry in August 2011, together with projection for future tenancy renewals<sup>4</sup>, assuming no significant change in net usable area. HKEAA will try its best to ensure cost effectiveness when it enters into commercial leases. It will continue to bear the recurrent expenditure arising from operating the temporary Island OSM Centre.

17. The estimate of non-recurrent grant of \$90.65 million for conducting the 2011 HKCEE and the 2013 HKALE is based on the 2011 HKCEE registration figures and the past statistics of the subject entries of HKALE by private candidates, a breakdown on the projected income (including fees from rechecking and remarking of scripts) and expenditure for the 2011 HKCEE and the 2013 HKALE as set out in the table below. As mentioned in paragraph 10 above, surplus arising from the 2012 HKALE, if any, will be used to offset the required amount of grant -

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<sup>4</sup> In projecting the rental for the future tenancy renewals in 2011, 2013 and 2015 (assuming a term of two years per contract), reference is made to the average market rent of \$249 per m<sup>2</sup> (net usable area excluding management fees and central air-conditioning charges) for Grade B offices in North Point/Quarry Bay (easy accessibility with public transport and relatively lower average rental) in 2010 with a projected increase in rental of 11% per year based on the average rate of annual rental increase for the area from 2006 to 2010 (according to Property Market Statistics of the Rating and Valuation Department). The management fees and central air conditioning charges are projected to increase by 3% per year with reference to the year-on-year increase in Composite Consumer Price Index of 3% as of August 2010.

	<b>2011 HKCEE</b> (\$ million)	<b>2013 HKALE</b> (\$ million)
<b>Income</b>	<b>22.94</b>	<b>17.00</b>
<b>Expenditure</b>		
(a) staff cost	28.17	31.42
(b) examination personnel cost	10.38	8.44
(c) administration/operation expenses	11.87	12.81
(d) overhead costs	14.33	13.17
<b>Total expenditure</b>	<b>64.75</b>	<b>65.84</b>
<b>Deficit</b>	<b>41.81</b>	<b>48.84</b>

18. On item (a) above, the cost covers the salaries, allowances and fringe benefits of the staff of HKEAA responsible for the development and administration work of the 2011 HKCEE and the 2013 HKALE such as operation of examination systems, development of examination papers, processing of registration data, allocation of examination centres, preparation and printing of examination materials, coordination of script marking, processing of examination results, and compilation of examination statistics and reports, etc.

19. On item (b) above, the cost covers the payments to the examination personnel such as setters, moderators, markers, invigilators, centre supervisors, examiners, etc. appointed for the 2011 HKCEE and the 2013 HKALE.

20. On item (c) above, the cost covers the administration and operating expenses such as the running cost of OSM centres and offices, rental of examination venues, and expenses on postage, furniture and equipment, printing, scanning, stationery and transport, etc.

21. On item (d) above, it is a share of the corporate expenses on internal infrastructure such as governance and executive services, human resources, and financial management to support HKEAA in delivering public examination services.

22. The exact amount of the grants to be provided to HKEAA will be the actual rental of the temporary Island OSM Centre from December 2010 until November 2015 and actual deficits for conducting the two examinations (after deducting the surplus, if any, from the 2012 HKALE), with ceilings capped at \$41.15 million and \$90.65 million respectively.

23. The estimated cash flow for the proposed grants is set out below –

<b>Financial Year</b>	<b>Rental for temporary Island OSM Centre (\$ million)</b>	<b>2011 HKCEE (\$ million)</b>	<b>2013 HKALE (\$ million)</b>
2010-11	1.359	-	-
2011-12	6.397	41.810	-
2012-13	7.835	-	-
2013-14	8.614	-	48.840
2014-15	9.390	-	-
2015-16	7.555	-	-
<b>Total</b>	<b>41.150</b>	<b>41.810</b>	<b>48.840</b>

## **PUBLIC CONSULTATION**

24. We consulted the Legislative Council Panel on Education on the proposed grants at its meeting on 8 November 2010. Members supported the proposals, but considered that any surplus from the 2012 HKALE should be used to cover the deficit for the 2013 HKALE and only the outstanding amount of deficit should be funded by the grant. This principle has now been reflected in this paper (see paragraphs 10 and 22 above). Members also requested for information on the site/premises search for the development of the HKEAA headquarters and Island OSM Centre conducted in the past few years, and the income of rechecking/remarking cases in recent years. We have provided the information to the Panel on 22 November 2010.

## **BACKGROUND**

25. HKEAA is a statutory body established in 1977 under the Hong Kong Examinations and Assessment Authority Ordinance (HKEAAO) (Cap. 261). It is governed by a Council with members drawn from various sectors, including

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tertiary institutions, schools, business and the Government. Its statutory responsibility is to conduct the two existing public examinations (namely HKCEE and HKALE) and the new HKDSEE. It also runs a number of assessment services including the Territory-wide System Assessment, Language Proficiency Assessment for Teachers, and a range of professional and international examinations. It operates on a self-financing basis and does not receive any recurrent subvention from the Government.

26. HKEAA submits annual estimates of income and expenditure and programme of its proposed activities to the Administration for approval. It also tables its annual audited accounts and report of activities at the Legislative Council every year in accordance with the HKEAAO.

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Education Bureau  
November 2010