

For information

on 13 January 2014

Legislative Council Panel on Education

The Policy of Direct Subsidy Scheme

PURPOSE

This paper informs members of the roles and functions of schools operated under the Direct Subsidy Scheme (DSS), and the current position of the DSS policy.

BACKGROUND

2. The DSS, which aims to inject more variety into our school system and give parents more choices, was introduced in 1991 pursuant to the recommendations of the Education Commission Report No. 3. In the 2013/14 school year, there are 74 DSS schools, including 12 primary, 53 secondary and nine primary cum secondary schools. They account for about 9% of publicly funded schools.

3. DSS schools are paid a recurrent government subsidy based on the average unit cost of an aided school place in the form of a block grant. Apart from the recurrent block grant, DSS schools may also collect school fees as a source of income to meet the expenditure on facilities and services commensurate with the schools' mission and educational objectives. DSS schools are required to exercise their discretion and professionalism in deploying the resources flexibly and diligently for educational and school needs in the best interest of their students.

4. To encourage a vibrant development in and inject diversity to our education system, thus giving more choices to parents, DSS schools are allowed to have greater flexibility in various areas, including school management, resources deployment, curriculum design, staff appointment, student admission and fees collection, so that they can cater for the diverse needs of their student intakes in a more responsive manner. Given that the circumstances of different DSS schools are very diverse, there is great variation in the level of school fees collected by the schools. Some DSS schools collect relatively high school fees while quite a number of DSS schools collect low school fees. In fact, of those

schools operating classes at junior secondary levels in the 2013/14 school year, about 30% charge school fees lower than \$500 per month and five of them do not charge school fees. The range of school fee charged reflects the diversity, innovations and school-based programmes of different schools to address their students' educational needs.

5. To follow up the recommendations made by the Audit Commission (AC) in 2010, the Education Bureau (EDB) set up a Working Group (WG) on DSS in February 2011 to review the administration of the DSS as well as the governance and administration systems of DSS schools. The WG released a report in December 2011 which shared the view that the policy objectives of the DSS for enhancing parental choice as well as increasing the diversity of our school system should be maintained, and recommended improvement measures covering various aspects, including enhancing the transparency of fee remission and scholarship schemes. Implementation of the improvement measures put forth by the WG is now in progress, the development of which is at **Annex I** for reference.

FEE REMISSION AND SCHOLARSHIP SCHEMES

6. To ensure that students will not be deprived of the opportunity to attend DSS schools because of their inability to pay fees, each DSS school since the inception of this policy is required to provide a fee remission and scholarship scheme with eligibility criteria no less favourable than the Government's student financial assistance schemes. The EDB requires DSS schools to set aside at least 10% of their total school fee income to provide fee remission and scholarship for eligible students. In assessing the students' eligibility for fee remission, no factors except the parents' financial situation should be taken into consideration.

7. All along, the following measures have been put in place to support accessibility of children from the needy families to the DSS schools:

- (a) To ensure that the reserve for the fee remission and scholarship schemes would be effectively utilised to support the needy students, if the reserve of a DSS school has reached a cumulative amount that exceeds the school's half-year total fee income, the School Management Committee (SMC)/ Incorporated Management Committee (IMC) of a DSS school would be required to devise a plan on how this specific reserve could be effectively deployed and submit it to the EDB for consideration.
- (b) DSS schools are prohibited to transfer funds in the school fee

remission and scholarship reserve out to other reserves or for other uses. Hence, the optimal use of the reserve for the intended purpose of providing financial assistance to needy students can be safeguarded.

8. Pursuant to the discussions and recommendations of the WG, the EDB introduced in 2011 various new measures which aim to further enhance the transparency and access to information of the fee remission and scholarship schemes, and provide parents with the necessary information to facilitate them to make an informed choice of schools. A summary of these measures is provided at **Annex II**. In practice, some schools have been proactively inviting primary schools/ kindergartens to recommend needy students meeting their admission criteria. Some provide various kinds of financial assistance for the needy students in addition to the school fee remission and scholarship schemes. A large number of DSS schools also introduce additional school-based financial assistance measures, such as providing subsidy for needy students to purchase textbooks and school uniforms, and to participate in educational trips, extra-curricular activities, extended learning activities, etc.

9. With the implementation of the new measures, significant improvements were observed regarding the utilisation rates of the fee remission and scholarship schemes in DSS schools. According to the audited accounts for the 2010/11 school year, about half of the DSS schools had utilised 100% of their fee remission and scholarship reserve. In the 2011/12 school year, more than two thirds of the DSS schools had utilised 100% of their fee remission and scholarship reserve. It was also noted that whilst the total amount of fee remission and scholarship utilised by DSS schools in the 2010/11 school year reached about \$150 million, the amount further increased to \$190 million in the 2011/12 school year. This indicates that quite a number of DSS schools have been actively exploring ways to increase the utilisation rates of their fee remission and scholarship schemes. We anticipate that the trend of improvement of utilisation will continue.

10. To further enhance the transparency of fee remission and scholarship schemes of DSS schools, we will explore with the DSS school sector the possibility of collecting more data about the utilisation, such as the number of beneficiaries.

CONCERNS OVER DSS SCHOOLS

11. We are aware of the concerns about aided schools turning into DSS schools and the different student admission arrangements between DSS schools

and public sector schools. We are also aware of the increasing public expectation of higher transparency of the financial position and enhancement of the governance and internal control of DSS schools. The ensuing paragraphs provide the current state of the DSS policy and development.

Aided Schools Joining DSS

12. Over the past 20 plus years, 21 aided secondary and primary schools have joined the DSS, which accounts for about 2.5% of the total number of schools in the aided sector. The provision of school places in the aided school sector can fully cater for the demand by children of the relevant age group. DSS schools have generally been providing an accessible alternative to parental choice under the prevailing facilitating measures. Based on the information of school fees for the 2013/14 school year, about half of the 21 ex-aided secondary and primary schools charge a monthly school fee in the range of a few hundred to \$1,500, which is comparable to some other DSS schools.

13. At this stage, we do not see the need to impose a suspension on schools' applications for joining DSS. We have a prudent and robust mechanism to process the applications for admission to the DSS. We will assess each and every application in accordance with a set of established criteria in a holistic and prudent manner. The applicant school has to demonstrate its readiness and capability to provide quality education services under the DSS, including sound financial viability in operating the proposed DSS school. The supply of and demand for school places will also be taken into consideration. Besides, whether the school's stakeholders, including parents, teachers and alumni, have been fully consulted and whether their concerns have been duly addressed are also essential factors in processing the application.

Student Admission

14. To facilitate the matching of students' different educational needs and DSS schools' diversified educational services, autonomy and flexibility in student admission is one of the distinguished features of DSS schools. That said, DSS schools are required to establish reasonable and professionally sound admission criteria that are consistent with their own tradition and educational objectives. DSS schools should also ensure that parents are well aware of these admission criteria. Currently, DSS primary schools do not participate in the Primary One Admission System and they recruit primary one students according to their own admission criteria. As for DSS secondary schools, aided schools switching to DSS and new schools joining the DSS have not been allowed to participate in the Secondary School Places Allocation (SSPA) System from 2006

onwards. At present (i.e. SSPA 2014), 18 DSS secondary schools remain in the SSPA, leaving about two thirds of DSS schools outside the SSPA.

15. There are views that DSS schools should set aside a certain percentage of their school places for central allocation through EDB's school places allocation systems in order to facilitate access to DSS schools by students from grassroots families. There are also views that the EDB should consider advancing the date to release the allocation results of public sector schools to enable those students offered places by DSS schools to make choices between DSS schools and the allocated public sector schools. On the other hand, there are requests particularly from the sector to require DSS schools to postpone their dates of release of student admission and registration to achieve similar purpose.

16. On setting aside a certain percentage of places of individual DSS schools, the WG set up by the EDB in February 2011 has considered that the allocation of DSS places for grassroots families cannot be guaranteed under the prevailing allocation mechanism. The WG was of the view that before considering if tightening the control over student admission in DSS schools is warranted, implementation of the improvement measures on fee remission and scholarship schemes with close monitoring should be more appropriate. Notwithstanding the above, we will continue to keep in view the situation and take action as and when appropriate.

17. Regarding the timing for releasing the results of student allocation, we have, in collaboration with the Secondary School Places Allocation Committee¹, explored whether discretionary places (DP) admission results of the SSPA can be released earlier. In general, stakeholders of the primary schools sector are generally concerned about the impact of the early release of results on the overall learning atmosphere among primary six students and teachers' handling of different learning needs and expectations of students arising from those who have secured a place at the DP stage while others have to await their central allocation results. The Secondary School Places Allocation Committee has also had in-depth discussions of the matter from time to time². Yet, there are diverse views. As a matter of fact, as DSS schools can admit students territory-wide throughout the whole year and each DSS school has its own policy and schedule of student admission, there are practical difficulties to advance the date of release of allocation results of public sector schools to the dates around or earlier than the ones when DSS schools require parents' confirmation of acceptance of the places offered.

¹ The Secondary School Places Allocation Committee is an advisory body under the EDB tasked to give advice to the Secretary for Education on the detailed operation of the SSPA System.

² Over the past two years, the Secondary School Places Allocation Committee had in-depth discussions at meetings on November 24, 2011, March 15, 2012, March 13, 2013 and June 20, 2013.

Enhancing the Transparency of Schools' Financial Management

18. To meet the public expectation of increased accountability and transparency in the operation of DSS schools especially on their major incomes and expenditures, DSS schools have been required to report the information on major expenditures in terms of percentages of their annual overall expenditures (including staff remuneration, repair and maintenance, fee remission and scholarship, learning and teaching resources and miscellaneous expenditures), and the cumulative operating reserve in terms of equivalent months of operating expenditure in the School Report as from the 2012/13 school year. All DSS schools have uploaded their financial summaries onto their websites in December 2013. As the background, enrolment situation, fees level, services provided and expenditure needs of individual DSS schools are different, to report the income and expenditure items in absolute amount might not facilitate the readers to compare their relative importance and proportion. For instance, the total annual expenditure of a school with 30 classes is about \$60 million whereas the total annual expenditure of a school with 18 classes is just about \$40 million. Comparison based on absolute amount may present a misleading expenditure profile of schools of different scales or operating classes.

Other Concerns

19. In reviewing the administration of the DSS as well as the governance and administration systems of DSS schools, the WG has reviewed thoroughly the origin and the fundamental principles of the DSS policy. The WG recognised that the policy objectives of the DSS in enriching our education system and enhancing parental choice should be maintained. To this end, the prevailing flexibility and diversity of DSS schools should be respected. Under such consideration, the WG has recommended various improvement measures to enhance the governance and internal control of DSS schools. The implementation of these improvement measures is progressive and well-paced. Training and support are also being provided to equip and develop DSS schools personnel with the necessary knowledge and skills to take forward those improvement measures and to facilitate DSS schools to achieve self-improvement and self-monitoring in a sustainable manner.

20. Against this background, we consider that DSS schools should be allowed a reasonable period of time to enhance their operations, including improvement of the fee remission and scholarship schemes, so as to prevent DSS schools from turning to a closed system not beneficial to social mobility. We will continue to keep in view the development of DSS policy for ensuring that the schools can serve the policy objectives.

WAY FORWARD

21. The Government is committed to enhancing the quality of education services. We have all along maintained good communication with the school sector to ensure that the various initiatives are effectively implemented. We would like to reiterate that the objective of implementing the DSS is to inject diversity into our school system, thus giving parents more choices, other than government and aided schools, in meeting their children's educational needs.

22. We will continue to monitor the DSS schools to ensure that all the improvement measures recommended by the WG are well implemented. At the same time, we will continue to listen to stakeholders' views and consider improving the implementation of the DSS policy such as refining the system as and when appropriate to uphold the policy objectives.

23. Members are requested to note the content of the paper.

Education Bureau
January 2014

Development of Improvement Measures Recommended in Working Group's Report

1. Enhancing the Transparency of Fee Remission and Scholarship Schemes

Improvement measures implemented:

- The EDB introduced in the 2011/12 school year various new measures that would further increase the transparency and access to information of the fee remission and scholarship schemes, and provide parents with financial difficulties with the necessary information to facilitate them to make an informed choice of schools. All DSS schools have uploaded the information on fee remission and scholarship schemes which comply with the requirement of “offering to parents a fee remission scheme a set of eligibility benchmarks no less favourable than the government financial assistance scheme” onto their websites.

2. Strengthening the Governance and Internal Control of DSS Schools

Improvement measures implemented:

- Enhancing transparency of school governing bodies – As from the 2012/13 school year, the EDB will, after seeking the consent of SMC managers, upload their information including the name, tenure of office/date of registration and category of manager onto the EDB's website for public reference. According to our record in mid-December 2013, among the 673 SMC managers, 622 (approximately 92%) gave their consent to the disclosure of their information for public reference.
- Completion of the Self-evaluation Checklist – All DSS schools have to complete the trial version of the Checklist in the 2012/13 school year. The EDB is now collecting feedback from DSS schools on the use of the trial version of the Checklist and, where necessary, will make refinements having regard to the experience gained and the feedback collected. It is scheduled that the Checklist will be put to formal use by DSS schools as from the 2013/14 school year.
- Essential Items to be discussed at SMC/IMC Meetings – DSS schools are required to put up the essential matters to their SMC/IMC for discussion and approval as from the 2012/13 school year.

Improvement measures to be implemented:

- Establishment of the Governance Review Sub-committee (GRSC) – DSS schools are required to form their respective GRSC before or by the end of the 2013/14 school year and the first review should be completed by the end of the 2016/17 school year at the latest.
- Management and Financial Audit – In order to have a more comprehensive review of the performance of DSS schools in resources management, the existing audit inspection of DSS schools will be replaced by phases by a more comprehensive management and financial audit starting from the 2014/15 school year.

3. Strengthening the Financial Management of DSS Schools

Improvement measures implemented:

- Delineation between the operating reserve and the designated reserves – DSS schools are required to allocate the balance of the accumulated surplus of schools as at the end of the 2011/12 school year into the operating reserve and the four designated reserves (i.e. school fee remission and scholarship reserve, long service payment reserve, reserve for donations with specific purposes and reserve for constructing, maintaining and upgrading above-standard facilities) in the 2011/12 audited accounts and to return the completed 2011/12 audited accounts to the EDB by end-March 2013.
- Investment and Purchase of Properties – DSS schools have to observe closely the revised guidelines as from the 2012/13 school year. According to the latest audited accounts submitted by the schools, no non-compliance cases are found by the EDB.
- Enhancing the Transparency of Schools' Financial Management – as from the 2012/13 school year, DSS schools are required to report the financial information in a standard template in the School Report and upload the School Report onto the schools' websites three months after the end of a school year, i.e. by end-November 2013. As at December 2013, all DSS schools have already uploaded the required financial information in the new template in the School Report for public reference.

Improvement measures to be implemented:

- Ceiling of the Operating Reserve – as from the 2013/14 school year, the ceiling on the operating reserve will be set at an amount equal to 100% of the annual total expenditure of the school. DSS schools with operating reserve (excluding grandfathered amount) exceeding the reserve ceiling will be asked to indicate their option to handle the surplus in excess of the reserve ceiling.

4. Training for School Personnel of the DSS Schools

Improvement measures implemented:

- Training Arrangements for DSS Schools Personnel – The EDB invited the Institute for Entrepreneurship, The Hong Kong Polytechnic University to run the Structured Training Programme for DSS Schools which included three modules, namely (a) the Governance and Internal Control of DSS Schools; (b) the Financial Management of DSS Schools and (c) Human Resources Management and Management and Financial Audit. Nine identical workshops were completed during the period from March to June 2013. Relevant post-training sharing sessions were also held in December 2013. Following the completion of the aforementioned Structured Training Programme, the EDB will run in the 2013/14 school year a series of practical thematic training seminars/workshops for DSS schools personnel.

5. Measures to Ensure Compliance of Requirements

Improvement measures implemented:

- To enhance the existing mechanism to ensure compliance of requirements and rectification of malpractice of school management – Starting from the 2012/13 school year, there would be an escalation of the advisory/warning letters issued by the EDB to supervisors and managers at the earliest opportunity so that they can intervene and rectify the situation as soon as possible.

New Measures for Enhancing Transparency of Fee Remission and Scholarship Scheme

Details of the new measures to enhance the transparency and access to information of the fee remission and scholarship schemes since the 2011/12 school year are as follows:

- (a) DSS schools are required to consult their SMC/ IMC or parent-teacher associations on the operation of their school fee remission and scholarship schemes and how the related information should be presented to ensure that it can be easily understood by parents and prospective parents of the schools;
- (b) DSS schools are required to clearly indicate in the application form for admission and the School Profile published by the Committee on Home-School Co-operation that needy students, including those from families receiving the CSSA and students receiving financial assistance provided by the Student Finance Assistance Agency (SFAA), could apply for school fee remission. DSS schools are also required to provide in the admission application form details of their school fee remission and scholarship schemes and in the School Profile, a hyper-link through which details of the school fee remission and scholarship schemes can be obtained on the schools' websites. Contact information including telephone number for enquiry about the schemes has to be included in both the application form and schools' websites;
- (c) DSS schools are required to provide details of their fee remission and scholarship schemes to all students newly admitted to the schools by enclosing such details with the letter offering admission;
- (d) subject to the availability of funds under the school fee remission and scholarship schemes, in principle, DSS schools are required to offer fee remission to students from families receiving the CSSA and those receiving assistance from the SFAA. This should be clearly set out in the details of the school fee remission and scholarship schemes for information of parents/prospective parents;
- (e) when notifying students of the application results for assistance from the SFAA, DSS schools are required to provide an application form for the school fee remission and scholarship schemes to each of the eligible students as well;
- (f) DSS schools should as far as possible complete processing the applications for school fee remission schemes from newly admitted students before the

new school year begins so that those eligible students will not be required to pay the school fee in advance. Likewise, if applications are received during the school year, they should be processed as early as possible;

- (g) DSS schools are encouraged to provide a simulation test for school fee remission on their websites so that parents will know in advance the precise level of school fee remission their children will be granted. This will facilitate decision on school choice and/or whether to apply for remission; and
- (h) the EDB provides on its website hotlinks to the school fee remission and scholarship schemes of individual DSS schools to facilitate interested parents to get the information they need easily.