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Panel on Education

Meeting on 13 January 2014

Background brief on issues related to Direct Subsidy Scheme schools

Purpose

This paper provides a summary of the views and concerns raised by Members on issues related to Direct Subsidy Scheme ("DSS") schools.

Background

Establishment of DSS

2. The DSS was introduced in September 1991 in response to the recommendations of Report No. 3 of the Education Commission. According to the Administration, its policy is to encourage non-government secondary schools which have attained a sufficiently high educational standard to join DSS by providing subsidies in order to enhance the quality of private school education. From the 2000-2001 school year onwards, primary schools are also allowed to join DSS. Schools which have joined DSS are free to decide on their curriculum, fees and entrance requirements. As at September 2012, there were 73 DSS schools, comprising 52 secondary schools, 12 primary schools and nine primary-cum-secondary schools.

3. The objective of DSS is to develop a strong private school sector in addition to government and aided schools so that parents have greater choice in finding suitable schools for their children. DSS schools are required to sign a service agreement with the Government which provides a proposed school plan and indicators for evaluation. They are also required to adhere to the following guiding principles issued by the Education Bureau ("EDB") for the proper and effective operation of schools:

(a) complying with laws and regulations;

(b) putting the interest of students as the first priority;

(c) operating the school in a fair, just and open manner;

(d) maintaining transparency in school management;

(e) taking key stakeholders' concerns into consideration in the decision-making process;

(f) deploying resources properly and effectively; and

(g) making reflections and improvement through continuous evaluation.

DSS schools are subject to compliance vetting and quality assessment by EDB to ensure that they meet the requisite service and operating standards.

<u>Issues arising from implementation of DSS</u>

4. In May 2009, the School Sponsoring Body of the Pegasus Philip Wong Kin Hang Christian Primary School cum Junior Secondary School ("Philip Wong Kin Hang School"), which was a DSS school, announced its intention of giving up its sponsorship. The alleged managerial and financial problems of the school had subsequently sparked public concerns about the operation of the DSS school sector and EDB's monitoring role.

5. The Audit Commission conducted a review on DSS and the findings were contained in its Report No. 55 issued in November 2010. After a study of the relevant chapters in the aforesaid Report, the Public Accounts Committee ("PAC") set out its conclusions and recommendation on, amongst others, the administration of DSS and the governance and administration of DSS schools in its Report No. 55 issued in February 2011. These conclusions and recommendations are in **Appendix I**.

6. To follow up the concerns raised by PAC, EDB set up a Working Group on DSS ("the Working Group") chaired by the Permanent Secretary for Education to review and make recommendations for improving the administration of DSS as well as DSS schools' governance and administration. The Secretary for Education ("SED") accepted all the recommendations in the Working Group's report submitted in December 2011. The Working Group's recommendations mainly covered five aspects,

namely, fee remission/scholarship schemes, governance and internal control of DSS schools, financial management of DSS schools, training for school personnel of DSS schools, and measures to ensure DSS schools' compliance of relevant requirements. A summary of these recommendations is given in **Appendix II.**

Deliberations on relevant issues

7. During the Fourth Legislative Council, issues related to DSS had been considered by the Panel on Education ("the Panel") in the wake of the controversies related to Philip Wong Kin Hang School and in the context of the recommendations of the Working Group. After commencement of the Fifth Legislative Council, issues related to DSS were raised at the special meetings of the Finance Committee to examine the Estimates of Expenditure 2013-2014, as well as in a number of questions raised by Members at meetings of the Legislative Council. The major views and concerns raised by Members are summarized in the ensuing paragraphs.

<u>Monitoring of DSS schools by EDB</u>

8. Panel members had noted the concerns raised by PAC in its Report No. 55 about the malpractices in the administration of some DSS schools, as well as the deterrent measures recommended by the Working Group to deal with DSS schools' non-compliance or failure to rectify a malpractice within a specified time-frame. It was also noted that the Working Group had proposed a framework comprising three inter-related aspects to strengthen the governance and internal control of DSS schools.

9. Whilst agreeing in principle that the governance and internal control of DSS schools should be enhanced, some members cautioned that the Administration should strike a balance between monitoring the performance of DSS schools and preserving the flexibility available to these schools in their operation. EDB should not seek to micro-manage DSS schools to the extent that individual schools would no longer be able to adopt an approach best suited to their circumstances. For example, at the Panel meeting held on 20 April 2012, there was a view that the Working Group's proposal to set up a governance review sub-committee would result in a multi-layered governing structure which would undermine the power of the School Management Committee ("SMC")/Incorporated Management Committee ("IMC") and the management of DSS schools. Concern was expressed about the significant increase in administrative work for DSS schools if all the recommendations of the Working Group were implemented. In addition,

EDB was asked to consider setting up a dedicated unit to provide advice and assistance to DSS schools as some DSS schools had received different advice from different regional education offices of EDB over the same matter.

10. According to the Administration, the proposed measures to deal with non-compliance/failure to make rectification would only be taken if the DSS school concerned had repeatedly ignored EDB's request for rectification. They were meant to improve the administration and internal governance of DSS schools and not to impose more stringent control over these schools. As regards the governance review sub-committee to be set up in DSS schools, the Administration confirmed that such a mechanism was necessary to provide SMC/IMC with an instrument to better ensure that the management and the financial control systems and processes were working as intended and as reported. The positioning of the governance review sub-committee was that it would be accountable to and assist SMC/IMC in discharging its functions. DSS schools might approach the Administration if they required assistance in appointing the relevant governance review sub-committees. Given that the financial provision for an aided school with 29 classes was $8 million while, including tuition fees, the annual income at the disposal of a DSS school of the same scale was about $60 million, the Administration considered that requiring DSS schools to enhance the transparency of their operation and strengthen their governance was in line with the expectation of parents and the community at large.

Fee remission and scholarships

11. Each DSS school is required to set aside at least 10% of its total school fee income to provide fee remission and scholarships according to a set of eligibility benchmarks which should not be stricter than those for government financial assistance schemes for needy students. This arrangement aims at ensuring a fair opportunity of admission for students from different socio-economic strata and that meritorious students would not be deprived of the chance to attend DSS schools due to the lack of means.

12. Question had been raised on DSS schools' utilization of the portion of their school fee income for providing fee remission/scholarships. Some members noted with concern that according to the information provided by EDB for the Panel meeting on 20 April 2012, 19 (or 26%) DSS schools had only utilized less than 50% of the relevant provision for fee remission and scholarship purposes. When examining the Estimates of Expenditure 2013-2014, concern was raised that only about half of the 73 DSS schools had fully utilized the provision set aside for fee remission/scholarships. There

was a suggestion that EDB should consider requiring those DSS schools with low utilization of the relevant provision to participate in the school places allocation system so that more students from lower income families could be placed into DSS schools.

13. Concern was expressed by some members that due to the high school fees charged, attendance at DSS schools had become increasingly a privilege of children from rich families. For example, in an oral question raised at the Council meeting on 5 June 2013, Hon IP Kin-yuen asked whether the high school fees charged by DSS schools had made education at these schools unaffordable, contrary to the original objective of providing a greater choice of schools to parents.

14. Whilst noting members' concerns, the Administration had advised that as reflected in the audited accounts of DSS schools for the 2010-2011 school year, some DSS schools had utilized more than the full provision for fee remission/scholarships although some other schools showed a relatively low utilization rate. The total amount of fee remission and scholarships utilized by DSS schools in 2010-2011 was about $150 million, indicating that quite a number of needy students had benefited from this measure. The Administration also confirmed that the financial provision earmarked for fee remission/scholarships could not be used by DSS schools for other purposes. It would also continue to monitor the provision of fee remission and scholarships by DSS schools.

15. The Administration referred to Report No. 55 of PAC which stated that one of the reasons for the low utilization rate was that the eligibility criteria for fee remission had not been publicized or written in an easily understandable manner for parents' reference. Pursuant to the recommendations of the Working Group, a number of measures had been implemented starting from 2012 to enhance transparency, such as by posting the information on the eligibility criteria for fee remission on the website of the schools, including such information in the School Profile and application forms for student admission and as far as possible, completing the processing of applications for school remission from newly admitted students before the commencement of the school year so that the eligible students would not be required to pay the school fees in advance.

<u>Development of the DSS school sector</u>

16. Members noted that in recent years, quite a number of traditional prestigious aided schools had joined DSS. Some aided schools' plan to convert to DSS schools had met with opposition from parents and alumni, as

they were worried that students from less well-off families would be deterred by the high school fees of DSS schools from applying for admission to these schools, contrary to the stated vision of many of these schools to provide education for all. In the light of the widely reported applications of several prestigious aided schools in the first half of 2013 to join DSS, question was raised as to how the authorities, when vetting and approving applications for admission to DSS, had handled the views on such applications expressed by stakeholders (such as parents, alumni, teachers, education bodies and residents of the districts concerned).

17. As explained by EDB, it would assess the applications in accordance with a set of established criteria. The applicant school must be able to demonstrate its readiness and capability to provide quality education under DSS as well as sound financial viability for sustainable development. EDB would also take other factors into consideration, including the effect on the supply and demand of school places arising from the change in financing mode of the school, the outcomes of the schools' consultation with stakeholder (including parents, teachers, alumni, etc.) and whether the school could address the concerns of stakeholders.

18. Some Panel members had expressed concern about the implications, if any, of a growing number of reputable aided schools converting to DSS schools. They considered that it had become increasingly difficult for financially disadvantaged students to enroll in well-performing schools, as most of them had converted to DSS schools and charged high school fees. Not only would these students have a lesser prospect of admission to universities, their upward mobility in society through quality education might also be impeded. Some members considered that the Administration should critically re-examine its policy on DSS and set up a dedicated committee to review the functions and roles of DSS schools.

19. According to EDB's information, a total of 21 aided secondary and primary schools had joined DSS since its implementation. In the 2012-2013 school year, there were 73 DSS schools, accounting for about 9% of publicly-funded schools. While the Administration had no plan to set an upper limit on the proportion of DSS schools in the publicly-funded school sector, it advised that in assessing applications to join DSS, the Administration would ensure that there were sufficient publicly-funded school places in every district to meet the demand and to safeguard the opportunity for students to enroll in the schools of their preference regardless of their socio-economic background.

20. On the suggestion of setting up a dedicated committee, the Administration referred to the report of the Working Group released in December 2011 which not only reviewed the governance and administration of the system of DSS schools, but also thoroughly examined the origin and fundamental principles of the policy on DSS. According to the Working Group, the policy objectives of DSS for enhancing parental choice and enriching Hong Kong's education system through increasing the diversity in the education system should be maintained. In the view of the Administration, there was no need to set up a dedicated committee to review the functions and roles of DSS schools at the present stage. Instead, reasonable time should be allowed for DSS schools to enhance their operations pursuant to the improvement measures recommended by the Working Group so as to prevent DSS schools from becoming a closed system not beneficial to social mobility.

Recent developments

21. In early December 2013, there were media reports querying that the financial statements published by DSS schools on their websites lack clarity, as each DSS school is only required to publish the relevant income and expenditure items as a percentage of the total income and expenditure of the school, instead of specifying the actual amount. Concern was raised about EDB's regulatory role and the difficulty faced by parents and the public in monitoring the financial position of DSS schools.

22. The Panel will discuss with the Administration issues related to the policy of DSS schools at the meeting on 13 January 2014.

Relevant papers

23. A list of the relevant papers on the Legislative Council website is in the **Appendix III**.

Council Business Division 4
Legislative Council Secretariat
7 January 2014

Extract from

P.A.C. Report No. 55 – Chapter 1 of Part 8

Administration of the Direct Subsidy Scheme and Governance and Administration of Direct Subsidy Scheme Schools

M. Conclusions and recommendations

160. The Committee:

- notes that:

  (a) the Audit Commission ("Audit")'s value for money audit is on the Direct Subsidy Scheme ("DSS") administered by the Education Bureau ("EDB") and not on individual DSS schools *per se*;

  (b) the audit is confined to the EDB's administration and supervision of the DSS and the governance and administrative matters of DSS schools, which do not include the quality of education provided by DSS schools; and

  (c) in the early stage of the DSS, in order to encourage more schools to join the scheme, the Administration allowed some schools to join the DSS before they had been able to complete all the admission requirements, making it difficult for the EDB to deal with the problems that surfaced subsequently in requiring the schools to comply with certain admission conditions;

- considers that although the objective of the DSS is to inject diversity to Hong Kong's school system through the growth of a strong subsidised private school sector so that parents would have more choices, and DSS schools are allowed to have greater flexibility in various areas, the EDB has to perform a monitoring role to ensure that the schools comply with its requirements, and that their governance, accountability and transparency are up to the required standard and public expectation;

- expresses grave dismay and finds it unacceptable that the Secretary for Education has not been made aware of the widespread compliance problems in DSS schools and there is no dedicated high-level body in the EDB to oversee the administration of the DSS and the schools' compliance with the DSS requirements;

- expresses disappointment that:

  (a) the EDB has failed to discharge its monitoring role over DSS schools effectively, as reflected by some serious cases of non-compliance with the EDB's guiding principles or requirements and its failure to take effective actions to ensure timely rectification of those problems. Details of the non-compliance are set out in the ensuing parts;

  (b) the EDB has failed to attach sufficient importance to the gravity of the problems in the administration of DSS schools in that they were simply dealt with as operational issues without adequate appreciation of the need to bring them to the attention of the Secretary for Education for policy review; and

  (c) before allowing some schools to join the DSS prior to completing all the admission requirements, the Administration had failed to consider the circumstances of individual schools which would make compliance with all the admission conditions difficult to achieve within a reasonable time;

- is surprised at and does not accept the Secretary for Education's statement that the EDB was toothless towards non-compliant DSS schools, given the administrative and punitive measures that EDB may take against them;

- expresses dismay that some DSS schools have not:

  (a) set aside the required amounts of school fee income for the purpose of their fee remission/scholarship schemes; and

  (b) clearly set out the eligibility criteria or adequately publicised the schemes, which might have discouraged needy parents from applying for their children's admission to DSS schools due to lack of information;

- acknowledges that for the purpose of enhancing and stepping up efforts to improve the governance of DSS schools, the Secretary for Education has tasked the Permanent Secretary for Education to consider a review of the governance framework, internal control and enforcement mechanism and financial management of DSS schools. A Working Group has been set up under the EDB with inputs from DSS schools and the academic sector as well as from relevant professionals experienced in governance, financial management and related areas to take forward the review and address the issues raised by the Committee and the Director of Audit;

- strongly urges the Secretary for Education to:

  (a) enhance his supervision of the DSS and ensure that the EDB will perform its monitoring role over DSS schools more effectively;

  (b) establish a dedicated high-level body in the EDB to oversee the administration of the DSS as well as its control and monitoring of DSS schools. Its duties should include conducting regular reviews of the EDB's control and monitoring mechanism, so as to enhance the governance and administration of DSS schools;

  (c) put in place a system that requires the EDB staff to report, in appropriate cases, DSS schools' non-compliance and malpractices to sufficiently high-level staff, including the Permanent Secretary for Education and the Secretary for Education, for follow-up actions;

(d) require the Working Group to accord top priority to reviewing the EDB's control and monitoring mechanism instituted for DSS schools to ensure that it is sound and effective, so that non-compliance with the EDB's requirements and malpractices will be detected in a timely manner, rigorous actions will be taken to enforce compliance and rectification, and appropriate punitive measures commensurate with the gravity of the problems will be taken against the schools concerned. The Working Group should consult various stakeholders and the Panel on Education in the review; and

(e) apart from requiring DSS schools to improve their fee remission/scholarship schemes, conduct a comprehensive review to explore effective measures to ensure that students from grassroots families will have a fair chance of studying in DSS schools, such as providing sufficient financial subsidy to needy students for meeting the necessary expenses of studying in such schools other than school fees, and consult the Panel on Education in the review;

<u>Service agreement with school sponsoring body ("SSB")</u>

- notes that up to mid-December 2010, the SSBs of Schools C, D and E that were required to enter into SSB Service Agreements with the EDB have still not entered into such agreements because they consider the school governance structure required under the draft SSB Service Agreement not consistent with that in their incorporation ordinances, and Schools C and E are also concerned about the clause in the School Management Committee ("SMC") Service Agreement that requires the transfer of government-funded assets to the Government upon termination of the SMC Service Agreement;

- expresses concern that some DSS schools which have entered into SSB Service Agreements have not complied with the terms of the agreements, as follows:

(a) although a DSS school should form an SMC before it commences operation, 18 DSS schools formed their SMCs after commencing operation. The delays ranged from two days to about nine years, with an average of three years;

(b) up to early June 2010, three DSS schools, which commenced operation in 2004-2005 to 2008-2009, had not incorporated their school governing bodies, and the requirement to acquire tax exemption status under the Inland Revenue Ordinance (Cap. 112) had also not been complied with;

(c) in three of the four DSS schools visited by Audit, no service agreement between the SSBs and the SMCs/Incorporated Management Committees ("IMCs") was signed, contrary to the requirement of the SSB Service Agreements;

(d) up to June 2010, one of the 15 schools examined by Audit, which commenced operation under the DSS in 2003-2004, had not submitted its school development plan to the EDB as required under the SSB Service Agreement signed;

(e) school development plans submitted by some DSS schools did not contain all the required information (e.g. school budget, academic goals for students, and criteria for student admission);

(f) two DSS schools had not obtained the EDB's prior approval for the improvement works carried out at their school premises, as required by the SSB Service Agreements; and

(g) of the 52 SSB Service Agreements signed, only 34 included a clause to provide the Director of Audit with the right of access to the records and accounts of the DSS schools;

- expresses concern that no record was kept by the EDB on the signing of service agreements between the SSBs and the SMCs/IMCs. Hence, the EDB was not able to ascertain if this requirement has been complied with;

- acknowledges that:

(a) the Secretary for Education has agreed with the audit recommendations in paragraphs 3.13, 3.29 and 3.33 of Chapter 1 of the Director of Audit's Report ("Audit Report");

(b) the EDB has agreed to revise the draft SSB Service Agreement for Schools C, D and E to allow them to be managed and operated under their original governing framework. The EDB also intends to refine the clause in the SMC Service Agreement for Schools C and E on the transfer of assets to the Government upon the termination of the SMC Service Agreement;

(c) as at the end of November 2010, of the three school governing bodies that had not yet acquired tax exemption status, two had acquired the status with effect from 7 June 2010 and 9 November 2010 respectively, and the remaining one was in the process of acquiring the status; and

(d) in the EDB Circular No. 12/2010 issued in November 2010, the EDB has required all DSS schools to keep proper administrative and financial records and provide them for examination by the Director of Audit when required;

- urges the Secretary for Education to:

(a) resolve the conflicts with Schools C, D and E over the terms and conditions of the draft SSB Service Agreement and the SMC Service Agreement as soon as possible to ensure that they will duly enter into the SSB Service Agreements; and

(b) take effective measures to ensure early rectification of the non-compliance with the terms of the SSB Service Agreements identified by Audit;

<u>Service agreement with incorporated school governing body</u>

- expresses concern that:

(a) although 53 DSS schools were required to enter into SMC/IMC Service Agreements with the EDB by June 2010, as at 30 June 2010, 13 of them had not signed the agreements (with three signed in July and August 2010);

(b) the composition of some IMCs and SMCs do not comply with the requirements stipulated in the Education Ordinance (Cap. 279) and the SMC Service Agreements respectively; and

(c) as at 30 June 2010, eight DSS schools had not signed tenancy agreements with the EDB, although they had been outstanding for about four to 10 years (with one signed in July 2010);

- notes that for the 14 IMCs that do not have an alumni manager (referred to in paragraph 4.13(a)(v) of Chapter 1 of the Audit Report), the history of the schools is relatively short and hence either their alumni associations have not been formed or their graduates are too young to serve as managers;

- acknowledges that the Secretary for Education has agreed with the audit recommendations in paragraphs 4.7, 4.15 and 4.22 of Chapter 1 of the Audit Report;

- urges the Secretary for Education to accord a high priority to implementing the above audit recommendations, taking into consideration the special circumstances of the schools concerned;

<u>School fee remission/scholarship schemes</u>

- notes that DSS schools are required to adopt a fee remission/scholarship scheme in order that students will not be deprived of the chance to study at DSS schools solely because of their inability to pay school fees;

- finds it totally unacceptable that the EDB has failed to discharge its duty to monitor DSS schools' compliance with its requirements on the amounts of school fee income that should be set aside for the purpose of their fee remission/scholarship schemes, as well as those on the publicity, implementation and eligibility criteria of the schemes, and that the Secretary for Education and the Permanent Secretary for Education are not aware of the non-compliance, as set out below:

  (a) contrary to the EDB's requirement, the fee remission/scholarship schemes of five DSS schools were not funded from school fee income. According to Audit's assessment, the amounts of school fees set aside by 22 DSS schools for the purpose of their fee remission/scholarship schemes were less than the levels required;

  (b) even by applying the EDB's practical approach, six schools are still found to have under-provision under the fee remission/scholarship schemes. Of these six schools, three did not set aside the required amounts for three consecutive years in 2006-2007, 2007-2008 and 2008-2009, and one of them has not heeded the EDB's repeated advice since September 2005 for rectification;

(c) according to the EDB's practice, the above cases of non-compliance, which were discovered by the EDB's Finance Division through checking of the schools' audited accounts, were only referred to the EDB's regional education offices for follow-up without bringing up to attention of the Permanent Secretary for Education and the Secretary for Education;

(d) contrary to the EDB's requirement, two of the four DSS schools visited by Audit have not mentioned their fee remission/scholarship schemes in their prospectuses. Two other DSS schools have not provided full details of their schemes (e.g. the eligibility criteria and the maximum percentage of fee remission) in their prospectuses. As such, some parents may be unaware of the schools' fee remission/scholarship schemes; and

(e) only 23 DSS schools have provided details of their fee remission schemes on their school websites. The eligibility criteria adopted by two of these 23 DSS schools for their fee remission schemes are less favourable than the government financial assistance schemes to students;

- expresses dismay that in 14 DSS schools, the utilisation of their fee remission/scholarship schemes was 50% or less;

- expresses dismay that under the existing policy of the Comprehensive Social Security Assistance ("CSSA") Scheme, no special grant for school fees would normally be given under the CSSA Scheme to students who choose to attend DSS schools, and this may deprive students from families in receipt of CSSA ("CSSA students") of the chance to study at DSS schools;

- acknowledges that:

(a) the Secretary for Education has agreed with the audit recommendations in paragraphs 3.9 and 3.17 of Chapter 2 of the Audit Report;

(b) to avoid misunderstanding arising from different interpretations of the requirements for fee remission/scholarship scheme, the EDB has undertaken to refine the guidelines with a view to clarifying and standardising the practice;

(c) the Working Group set up by the EDB will also study possible measures to enhance the transparency and efficacy of the fee remission/scholarship schemes in DSS schools in order to help ensure that students from low-income families will not be deprived of access to DSS schools due to inadequate means; and

(d) in all DSS schools, CSSA students are eligible for the schools' fee remission/scholarship schemes, and all the schools adopt the same admission policy in respect of CSSA students and non-CSSA students;

- strongly urges the Secretary for Education to:

(a) step up the EDB's monitoring of DSS schools' compliance with its requirements on fee remission/scholarship schemes and to enhance public awareness of the schemes, so that parents can take them into account when considering whether to apply for their children's admission to DSS schools; and

(b) take measures to ensure that DSS schools will not discriminate against CSSA students in administering their fee remission/scholarship schemes;

- strongly urges the Secretary for Labour and Welfare to revise the existing CSSA policy so that special grant for school fees will be given under the CSSA Scheme to students who choose to attend DSS schools;

<u>Revision of school fees</u>

- is surprised and expresses serious concern that:

(a) in one of the six approved applications for school fee increase in 2009-2010, supporting documents were not provided by the school to show that it had obtained the required consent from the majority of the parents;

(b) of the 30 approved applications for fee increases in 2008-2009, 26 DSS schools had underestimated their projected accumulated operating reserves by the end of 2008-2009; and

(c) DSS schools are given flexibility in using their operating reserves of non-government funds to finance large-scale capital works and maintenance works of above-standard facilities, such as construction of additional floors and swimming pools. The charging of such expenditure to the schools' operating reserves may be a justification for applying for substantial school fee increase, which in turn may create additional financial burden on parents;

- acknowledges that:

(a) the Secretary for Education has agreed with the audit recommendations in paragraphs 4.7 and 4.14 of Chapter 2 of the Audit Report; and

(b) the EDB will discuss with DSS schools the need for setting aside separate reserves with designated account for large-scale capital works and their related maintenance, and set out the factors that the schools should consider when planning large-scale capital works, including parents' affordability;

- urges the Secretary for Education to:

(a) require DSS schools to provide all parents with information on the schools' financial status when they consult parents on their proposal to apply for school fee increase;

(b) take effective measures to ensure that the financial projections made by DSS schools in their applications for increasing school fees are fair and reasonable; and

(c) accord a high priority to exploring measures to ensure that the planning and undertaking of large-scale capital works by DSS schools will not cause undue impact on their level of school fee and parents' affordability;

Financial management

- expresses astonishment that, of the four DSS schools visited by Audit:

  (a) one school used non-government funds to purchase three properties. The properties were held under a purported trust arrangement which was considered improper by the EDB; and

  (b) contrary to the EDB's guidelines, another school invested part of its surplus funds in financial instruments (e.g. local equities and investment funds) instead of placing them in time deposits and savings accounts;

- expresses serious concern over the following cases of non-compliance with the EDB's rules on the financial management of DSS schools, and that the EDB has failed to detect the non-compliance and, in some cases, to take effective actions to ensure rectification of the non-compliance:

  (a) the EDB has not set a reserve ceiling for DSS schools, contrary to the requirement stipulated in Financial Circular No. 9/2004;

  (b) as at 31 August 2008, the accumulated operating reserves of 13 DSS schools exceeded the level equivalent to a full year's operating expenses. However, one of them has refused to submit a development plan, setting out how its accumulated operating reserve would be used for school development, to the EDB as required;

  (c) the 2007-2008 audited accounts of DSS schools indicated that six schools had not followed the EDB's requirement on maintaining accumulated operating reserves sufficient to meet at least two months' operating expenses. As at 31 August 2009, the accumulated operating reserves of two of the schools were still below the required level;

  (d) as at 30 September 2008, 162 non-local students were admitted by 17 DSS schools. Given that local and non-local students at these schools paid the same level of school fees, and the schools maintained no separate accounts for the non-local students, it is possible that their non-local students had been cross-subsidised by the DSS subsidy for the local students; and

(e) the external auditors of 18 DSS schools did not state in their reports on the schools' accounts that the schools had used government subsidies in accordance with the rules promulgated by the EDB for the DSS;

- acknowledges that:

(a) the Secretary for Education has agreed with the audit recommendations in paragraphs 5.8, 5.13, 5.17, 5.22, 5.28, 5.32, 5.36, 5.44, 5.48, 5.52 and 5.60 of Chapter 2 of the Audit Report;

(b) the Secretary for Financial Services and the Treasury has agreed with the audit recommendations in paragraphs 5.8, 5.17 and 5.22 of Chapter 2 of the Audit Report;

(c) the Supervisor of the school which had used non-government funds to purchase three properties has informed the EDB that the SMC had accepted the legal advice to apply to court for a vesting order to transfer the three properties to the SMC;

(d) the EDB will request DSS schools to make detailed disclosure on purchase of properties in their accounts from 2009-2010 onwards; and

(e) in the EDB Circular No. 12/2010 issued in November 2010, the EDB has provided guidelines to DSS schools on devising a school-based mechanism on investment by using non-government funds;

- urges the Secretary for Education to:

(a) closely monitor the progress made by the school concerned in transferring the three properties to the SMC to ensure that the transfer would be completed without delay;

(b) put in place measures to enhance the internal control of DSS schools and take effective intervention measures to ensure timely rectification of identified cases of non-compliance;

(c) consider devising a self-assessment system for DSS schools to declare if they have complied with the various financial management requirements of the EDB and request the schools to document the justifications for not complying with the requirements; and

(d) provide more training for staff of DSS schools to familiarise them with the EDB's various requirements in financial management to help ensure compliance;

<u>Admission process</u>

- expresses serious concern that:

  (a) in five admission cases, the assessment on the applicant schools' track records of performance was not based on up-to-date and relevant information;

  (b) as at June 2010, the profit-making status of five DSS schools (four admitted to the DSS in 1999-2000 and one in 2000-2001) still remained unchanged, although they were required to complete the procedures in acquiring a non-profit-making status within one year after admission; and

  (c) as at June 2010, two schools (conditionally admitted to the DSS in 1999-2000) that were required to secure their own school premises by the end of 2004-2005 were still operating in leased premises;

- acknowledges that:

  (a) the Secretary for Education has agreed with the audit recommendations in paragraphs 2.6 and 2.15 of Chapter 1 of the Audit Report; and

  (b) all schools joining the DSS from 2007 onwards are required to meet all the DSS admission conditions upon admission to the DSS;

- urges the Secretary for Education to:

  (a) sort out immediately the remaining issues concerning the Deed of Novation and Assignment with the five DSS schools to facilitate their completion of the procedures for acquiring non-profit-making status; and

(b) strictly enforce the rule to require all schools joining the DSS to meet all the relevant requirements immediately upon their admission to the DSS;

Monitoring school performance

- expresses concern at the following:

  (a) the paucity of audits carried out on DSS schools each year, which ranged from two to eight during 2005 to 2009, and of the School Audit Section's staff deployed for undertaking duties relating to audits of DSS schools and follow-up work, which ranged from 0.4 to 1.7 in the same period;

  (b) the EDB's selection of schools for audit has not been based on a systematic risk analysis mechanism;

  (c) there has been delay in issuing school audit reports to 11 schools, with two schools over 200 days;

  (d) no follow-up school audit has been carried out even though glaring malpractices have been identified during school audits;

  (e) only five (25%) of the 20 DSS schools examined by Audit have uploaded their school plans and reports to their websites as required by the EDB;

  (f) some school reports uploaded by DSS schools to their websites do not provide the required information (such as financial summary, student performance and feedback on future planning); and

  (g) two DSS schools have been excluded from the External School Review simply because they were either offering a non-local curriculum or only sixth form classes;

- acknowledges that:

  (a) the Secretary for Education has agreed with the audit recommendations in paragraphs 5.13, 5.23 and 5.29 of Chapter 1 of the Audit Report; and

(b) the EDB plans to increase the number of school audits to 12 in 2010-2011;

- urges the Secretary for Education to deploy sufficient manpower resources to carry out more audits on DSS schools, so as to ensure that the schools use government and school funds properly;

Direct Subsidy Scheme subsidy

- expresses dissatisfaction and finds it unacceptable that:

(a) the then Education and Manpower Bureau did not always provide the Legislative Council ("LegCo") with full and accurate information about the changes in measures introduced to the DSS;

(b) the then Education and Manpower Bureau did not seek approval from the LegCo's Finance Committee ("FC") for the introduction of the two-tier system, although it had financial implication to the Government; and

(c) the then Education and Manpower Bureau did not inform the FC that exception had been given to a school to ensure that it would continue to receive the old DSS subsidy rate after the two-tier system was introduced;

- acknowledges that the Secretary for Financial Services and the Treasury has agreed with the general principles in the audit recommendations in paragraph 6.15 of Chapter 1 of the Audit Report;

- urges the Secretary for Education to ensure that accurate and complete information is always provided to the LegCo;

International schools in the Direct Subsidy Scheme

- expresses dissatisfaction and finds it unacceptable that:

(a) the then Education and Manpower Branch did not inform the FC that School I, which had agreed in 1991 to meet its full operating cost, would be given recurrent subsidy upon its admission to the DSS in 1994; and

(b) despite the decision of the Executive Council ("ExCo") that international schools should no longer be eligible for admission to the DSS and those already in the scheme should be phased out gradually, in the Memorandum submitted by the Administration to the ExCo, the then Education and Manpower Branch did not include School I in the list of international schools to be phased out and the records of the then Education Department could not explain why School I should not be phased out;

- acknowledges that the Working Group set up by the EDB will critically review the justifications for continuing to allow School I to remain in the DSS;

- urges the Secretary for Education to:

  (a) proactively keep the LegCo informed when there are major changes to the information previously provided to the LegCo;

  (b) ensure that complete information is always provided to the ExCo; and

  (c) having regard to the results of the Working Group's review on the justifications for continuing to allow School I to remain in the DSS, take appropriate measures to address the matter as necessary;

<u>Human resource management</u>

- expresses serious concern that, of the four DSS schools visited by Audit:

  (a) three schools did not carry out open recruitment for some staff recruited in 2007-2008 to 2009-2010;

  (b) two schools did not follow the EDB's requirements of reporting the results of their staff recruitments to their governing bodies in 2008-2009 and 2009-2010;

  (c) one school has not set up a mechanism for determining the remuneration packages for its non-teaching staff as required by the EDB;

(d) one school did not have a formal staff performance management system in place. In another school, performance appraisal was carried out only for some staff. In the third school, six staff appraisal reports were not available for examination by Audit. In the remaining school, the appraisers were not required to record the justifications of their assessments; and

(e) in one school, the decisions of the SMC on contract renewal of staff members were not based on performance appraisals;

- acknowledges that the Secretary for Education has agreed with the audit recommendations in paragraphs 6.12, 6.17, 6.21 and 6.25 of Chapter 2 of the Audit Report;

- urges the Secretary for Education to:

(a) provide more training for staff of DSS schools to familiarise them with the EDB's various requirements in human resource management to help strengthen the schools' internal control mechanism; and

(b) consider requiring DSS schools to declare if they have complied with the EDB's requirements in human resource management matters and document the justifications for not following the requirements;

<u>General administration</u>

- expresses serious concern that, of the four DSS schools visited by Audit:

(a) three schools have not sought prior approval from the EDB for some trading operations carried out by them; and

(b) two schools have accepted donations from trading operators without any documented compelling reasons, and made no disclosure in the school reports;

- expresses concern that, of the four DSS schools visited by Audit:

(a) one school has not laid down any formal procurement policy and procedure. In another school, the procurement procedures for making procurement with non-government funds are less stringent than those of the EDB's guidelines for aided school. No record is available showing that the adoption of the less stringent procedures has been approved by the SMC and made known to the stakeholders of the school;

(b) in three schools, no record is available showing that the staff involved in purchasing and supplies duties has signed the required undertaking that they would declare to the school governing body any current or future connections they or their immediate families have/will have with the suppliers;

(c) the profit of some of the items sold by three schools has exceeded the 15% profit ceiling set by the EDB; and

(d) no tender/quotation exercise has been carried out by one school for the selection of the tuckshop operator, and by another school for the selection of operators/suppliers for operating the school tuckshop, the provision of school bus service and the supply of lunch boxes;

- acknowledges that the Secretary for Education has agreed with the audit recommendations in paragraphs 7.12 and 7.23 of Chapter 2 of the Audit Report;

- urges the Secretary for Education to expeditiously implement the above audit recommendations;

<u>Other governance issues</u>

- expresses concern that:

(a) the composition of the school governing bodies of six DSS schools (incorporated under their respective incorporation ordinances) does not include representatives of parents and teachers as school managers, which is not in line with modern corporate governance practices;

(b) there is no requirement to disclose to the public the particulars of school managers (name, tenure of office and category of each manager) of SSBs other than the IMCs; and

(c) of the four DSS schools visited by Audit:

(i) the attendance rates of some school managers at the school governing body meetings held by two schools were low;

(ii) a quorum was not present at some school governing body meetings held by two schools; and

(iii) all the four schools did not comply fully with the requirements stipulated in the EDB's guidelines and the Education Ordinance on managing conflict of interests;

- acknowledges that the Secretary for Education has agreed with the audit recommendations in paragraphs 2.8, 2.15, 2.23 and 2.28 of Chapter 2 of the Audit Report;

- urges the Secretary for Education to expeditiously implement the above audit recommendations; and

<u>Follow-up actions</u>

- wishes to be kept informed of:

(a) the progress made by the Working Group in reviewing the governance framework, internal control and enforcement mechanism and financial management of DSS schools; and

(b) the progress made in implementing the various recommendations made by the Committee and Audit.

Summary of Working Group's Recommendations

No.	Recommendation
Improvement Measures for the Fee Remission/Scholarship Schemes	
1	Paragraph 3.5 The Working Group recommends that the EDB should keep in view the implementation of the improvement measures of enhancing the transparency and accessibility of information on fee remission/scholarship schemes in individual DSS schools and provide advice or intervention to schools concerned where necessary.
2	Paragraph 3.8 The Working Group recommends that DSS schools should continue to be given the flexibility to devise their school-based arrangements to offer financial assistance to needy students over and above the current requirements.
3	Paragraph 3.12 The Working Group recommends that: (a) DSS schools be encouraged to continue to explore ways to better utilize their fee remission/scholarship reserve; and (b) the proposal of setting up a centralized fund for fee remission/scholarship purposes be shelved and only be revisited if the situation of under-utilization of fee remission/scholarship reserve by DSS schools persists.
4	Paragraph 3.15 The Working Group does not recommend setting a cap for scholarship.
5	Paragraph 3.18 The Working Group does not recommend mandating DSS schools to surrender a percentage of their school places for central allocation by the EDB.

No.	Recommendation
6	<u>Paragraph 3.24</u> The Working Group recommends the adoption of the measures set out below: (a) DSS schools meeting the following criteria should be allowed to apply to the EDB for exemption from the requirement of adopting eligibility criteria no less favourable than those of the government financial assistance schemes to needy students: (i) the utilization rates of their fee remission/scholarship provisions are 100% or more as reflected in the audited accounts of the past three consecutive years; and (ii) in overall terms, during the three years in question, two thirds of their fee remission/scholarship provisions or more have been used for fee remission purposes as confirmed by the schools. (b) DSS schools given exemption should ensure that: (i) students receiving fee remission before the schools adopt the revised eligibility criteria will not be affected, i.e. they will continue to receive fee remission under the previous eligibility criteria until they graduate from the schools; and (ii) sufficient notice must be given to prospective parents/students before implementing the new eligibility criteria; and in any case, the revision must be made available for public consumption; (c) the exemption to DSS schools would be cancelled once: (i) the average utilization rate of their fee remission/scholarship provisions under the revised eligibility criteria in the past three years is less than 80%; or (ii) in the past three years, on average, less than two thirds of their fee remission/scholarship provisions under the revised eligibility criteria are used for fee remission

No.	Recommendation
	purposes.
7	Paragraphs 3.27 & 3.28 The Working Group recommends that through-train secondary and primary schools be allowed to transfer a maximum of 50% of the fee remission/scholarship reserves of the linked primary school to the linked secondary school should they meet the following conditions and obtain prior approval from the SMC/IMC: (a) the utilization rates of the fee remission/scholarship provisions of the linked secondary school are 100% or more as reflected in the audited accounts of the past three consecutive years; and (b) two thirds of the fee remission/scholarship provisions or more of the linked secondary school are used for fee remission purposes as confirmed by the schools. Following the same logic, the Working Group also recommends that similar flexibility under identical terms be allowed for the transfer of fee remission/scholarship reserves of the secondary school to the linked primary school.
Strengthening the Governance and Internal Control of DSS Schools	
8	Paragraph 4.7 In respect of DSS schools governed by SMC/MC, the Working Group recommends the following: (a) at school level, the EDB to consult schools on disclosure of their composition on the EDB's homepage; (b) at individual school manager level, the EDB to add a checkbox to the application form for registration as a manager with a view to seeking his/her consent of the EDB's disclosure of his/her information including the name, tenure of office/date of registration and category of school manager. As for serving managers of SMC/MC, the EDB should seek their consent to similar disclosure through an ad hoc exercise; and (c) for schools with managers who refuse to give consent to the

No.	Recommendation
	proposed disclosure, the EDB to add a remark indicating the number and categories, if applicable, of managers who have not given such consent on the relevant part of the EDB's homepage.
9	<u>Paragraph 4.11</u> The Working Group recommends that: (a) all DSS schools be required to conduct self-assessment by completing the Checklist regularly; (b) while the EDB would collaborate with the Hong Kong DSS Schools Council in the development of the Checklist, individual DSS schools should be given flexibility in adapting or modifying the Checklist to suit their own needs given that their needs do vary; and (c) relevant training be provided to DSS schools to facilitate the effective use of the Checklist with a view to promoting over time the internalization of a self-evaluation culture in DSS schools.
10	<u>Paragraph 4.17</u> The Working Group recommends that all DSS schools be required to set up a governance review sub-committee (or any name the SMC/IMC sees fit) to assist the SMC/IMC in reviewing the system integrity of various management and financial control processes with regard to the requirements below: (a) A governance review sub-committee (or any other name the SMC/IMC sees fit) responsible for conducting regular system reviews of various key management and financial control systems and processes has to be set up by DSS schools by the 2013/14 school year; (b) Specifically, the governance review sub-committee should review school-based policies and processes in respect of the following aspects: (i) human resources management matters including staff

No.	Recommendation
	recruitment, promotion, remuneration, etc; (ii) financial management matters including school budgeting, financial reporting, procurement, investment, transfer of funds from the operating reserve to designated reserves, etc; (iii) operation of school fee remission/scholarship schemes; Other management functions can be assigned to the governance review sub-committee as individual SMC/IMC deems appropriate; (c) Having regard to the sub-committee's operational needs in terms of a viable quorum for a meeting and for the sake of continuity, the governance review sub-committee should have a minimum of three members, with one member preferably with experience and qualification in accounting/financial management and one member being a manager of the school. To avoid conflict of interests, parents of students studying in the school should not be invited as a member of the sub-committee. In addition, all the members should not be among the paid staff of the school; (d) In principle, the governance review sub-committee is required to complete a comprehensive review of the school-based policies and processes as set out in (b) (i), (ii) and (iii) and submit a comprehensive report to the SMC/IMC within a three-year cycle. Within the three-year cycle, the SMC/IMC should determine the focus of its annual review each year and the governance review sub-committee should then submit a focused review report to the SMC/IMC annually; and (e) While paid staff of a DSS school including the principal and senior teachers/heads of functional committees of the school should not serve as member(s) of the governance review sub-committee, they may, at the discretion of the governance review sub-committee, attend meetings or serve as resource persons to facilitate the internal review. Nevertheless, at the review sub-committee meeting(s) where the annual focused

No.	Recommendation
	report or the comprehensive report is to be finalized before submission to the SMC/IMC, attendance should be confined to official members of the governance review sub-committee only.
11	Paragraph 4.19 The Working Group recommends making it a mandatory requirement for DSS schools to put up essential matters as set out below for discussion and approval at SMC/IMC meetings: (a) the human resource policies for senior teaching and administrative posts such as the recruitment, appointment, promotion and remuneration packages of senior teaching and administrative staff; (b) annual school budgets and financial report/audited account including acceptance of donations and fund raising activities; (c) large-scale capital works (including the SMC/IMC's determination of what constitutes "large-scale" works); (d) procurement of services or goods through tendering with significant financial implications (including the SMC/IMC's determination of the thresholds for different modes of procurement); (e) operation of the fee remission/scholarship scheme including an annual operational summary and criteria for the schemes; (f) fee revision proposals; (g) investment policy and update; (h) advisory letter(s) specifying for the attention of the SMC/IMC and/or any warning letter(s) (e.g. the management letter from EDB's School Audit Section); and (i) self-evaluation on schools' academic as well as non-academic performance under the School Development and Accountability Framework, including the endorsement of School Development Plan, Annual School Plan and School Report.
12	Paragraph 4.21

<table>
<tr><th>No.</th><th>Recommendation</th></tr>
<tr><td></td><td>The Working Group recommends that:

(a) the existing audit inspection of DSS schools should be replaced by a management and financial audit;

(b) relevant training be provided for DSS schools before the commencement of the management and financial audit from the 2014/15 school year to allow DSS schools to acquire sufficient know-how and have ample time to prepare for the enhanced audit; and

(c) a review be conducted upon the completion of the first round of the management and financial audit of DSS schools to determine whether the management and financial audit should become an on-going measure; and if so, how.</td></tr>
<tr><td colspan="2">Strengthening the Financial Management of DSS Schools</td></tr>
<tr><td>13</td><td><u>Paragraph 5.13</u>
To enable DSS schools to put in place longer-term development strategies, the Working Group recommends that the following measures in respect of the ceiling on accumulated operating reserve be adopted:

(a) the ceiling on the operating reserve which may contain both government funds and non-government funds should be set at an amount equal to 100% of the annual total expenditure, i.e. 12 months’ operating expenditure as reflected in the audited accounts of the same school year;

(b) only the balance in the operating reserve should be used to assess whether the schools’ operating reserve exceeds the ceiling, taking into account the fact that funds in the designated reserves have specific purposes;

(c) schools with accumulated operating reserve exceeding the ceiling as reflected in the latest audited accounts should be given the following options to rectify the situation and they should be required to indicate the option they choose in their submission of the audited accounts:

(i) schools may choose to submit a plan on how to reduce</td></tr>
</table>

No.	Recommendation
	school fees in the forthcoming school year so that the accumulated operating reserve will drop to below the ceiling taking into account their own long-term financial considerations; (ii) schools may choose to receive less DSS subsidy in the forthcoming school year - the amount exceeding the ceiling will be deducted from the DSS subsidy to be paid to the school in the next payment; (iii) schools may choose to return the surplus in excess of the ceiling to the Government in a specified timeframe; or (iv) schools may choose to transfer the surplus in excess of the ceiling to the fee remission/scholarship reserve subject to the following conditions being met: – there is no surplus in the fee remission/scholarship reserve as reflected in the latest audited accounts; – the utilization rates of the fee remission/scholarship provisions are 100% or more in the past three consecutive years; and – the amount that can be transferred to the fee remission/scholarship reserve is subject to EDB's approval.
14	<u>Paragraphs 5.15 & 5.16</u> The Working Group recommends that DSS schools be allowed to grandfather the reserve including assets in excess of the reserve ceiling accumulated before the implementation of the recommendation concerning reserve ceiling. This notwithstanding, the grandfather arrangement is subject to the following conditions being complied with: (a) schools submit to the EDB plans with detailed accounts of their reserves including their types, proposed usage and, where necessary, timeframe for deployment endorsed at SMC/IMC meetings within a specified timeframe to be set by the EDB; and

No.	Recommendation
	(b) the plans are approved by the EDB. The Working Group also recommends that the EDB should take into account schools' grandfathered reserve when processing any applications from schools for tuition fee increase or for setting up a designated reserve for construction, maintenance and upgrading of above-standard facilities.
15	Paragraph 5.23 The Working Group recommends that DSS schools with genuine needs for constructing, maintaining or upgrading above-standard facilities be allowed to set up a reserve for the purpose subject to the following conditions being met: (a) concrete plans with purposes, timeframe/cashflow and funds required have to be deliberated and approved by the SMC/IMC; (b) Parent-Teacher Associations have to be consulted about the plans (all parents have to be consulted if the reserve is used for new above-standard capital works); (c) the amount to be transferred to the reserve for above-standard facilities should be no more than 10% of the school fee incomes of each school year; (d) there is no need to consult the EDB beforehand if after the proposed transfer, there remains cash in the operating reserve equivalent in amount to at least six months' the school's expenses. Instead, such a transfer should be detailed in the audited accounts to be submitted to the EDB; (e) the EDB's *prior* approval should however be sought if the school intends to transfer more than 10% of the annual school fee income or if after the transfer, cashflow in the operating reserve account falls below six months' expenses of the school; and (f) the EDB should not give approval to the application should the cashflow in the operating reserve account fall below three

<table>
<tr><th>No.</th><th>Recommendation</th></tr>
<tr><td></td><td>months’ expenses after the proposed transfer.</td></tr>
<tr><td>16</td><td><u>Paragraph 5.26</u>
The Working Group recommends that the following measures be adopted with a view to enhancing the regulation of investment activities that DSS schools may conduct and ensuring that the financial situation of DSS schools remains sound and healthy after the investment:

(a) under no circumstances should DSS schools be allowed to use the funds in the operating reserve or the fee remission/scholarship reserve for investment;

(b) DSS schools should seek their SMC/IMC’s approval before making investment decisions and such approval and factors for consideration must be clearly documented;

(c) the only funds that may be used for investment are the long service payment reserve, donations with specific purposes and the reserve for construction, maintenance and upgrading of above-standard facilities;

(d) DSS schools should only be allowed to invest in (i) HK dollar bonds; and (ii) HK dollar certificates of deposits according to the prescribed criteria/conditions; and

<table>
<tr><th>Type of Investment</th><th>Investment Criteria/Conditions</th></tr>
<tr><td>HK dollar bonds or certificates of deposits (CD):
✧ short to medium term with a maturity period of one to five years</td><td>✧ The credit rating of the issuer must not be lower than the rating of A3 given by Moody’s Investors Service Inc. or A- given by Standard & Poor’s Corporation.

✧ The bank must be licensed under the Banking Ordinance, Cap. 155.</td></tr>
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(e) DSS schools should be alerted to the liquidity constraints of the certificates of deposits and corporate bonds in the</td></tr>
</table>

No.	Recommendation
	secondary markets and be advised to make allowance for contingencies in projecting the use of their designated reserves.
17	Paragraph 5.28 The Working Group recommends that two requirements be added to existing requirements for the purchase of properties by DSS schools: (a) DSS schools should be required to keep at least an amount equivalent to six months' operating expenditure in cash after the purchase of properties; and (b) DSS schools should not be allowed to purchase properties through mortgages or any other borrowing arrangements.
18	Paragraph 5.31 To strike a balance between meeting the public expectation for increased transparency of the use of school funding and addressing the practicality at school end, the Working Group recommends that the following measures be implemented: (a) DSS schools are required to disclose annually their major expenditures (including staff remuneration; repair & maintenance; fee remission/scholarship; learning and teaching resources; and miscellaneous expenditures) in terms of percentages of their annual overall expenditures; (b) DSS schools are required to disclose annually the cumulative operating reserve in terms of equivalent months of operating expenditure as well; and (c) to ensure meaningful disclosure and comprehensibility of the data, a template for enhancing the transparency of school's financial management should be developed. To further ensure that the disclosure will be fit-for-purpose and not over-burdensome, EDB should develop the template in consultation with the Hong Kong DSS Schools Council.
Training for School Personnel of the DSS Schools	

No.	Recommendation
19	<u>Paragraph 6.4</u> To prepare DSS schools to take forward the new proposed improvement measures for enhancing the governance, management and administration of DSS schools and to tackle the non-compliance problems, the Working Group recommends that training programmes be provided for DSS schools and a steering committee be set up to oversee the design and implementation of the training programmes.
20	<u>Paragraph 6.14</u> The Working Group recommends that the existing practice of inviting school managers of DSS schools to the structured training programmes for school managers should continue. To cater for the special needs of managers of DSS schools, the Working Group has also recommended that an optional module on deployment of resources specifically for DSS school managers be added to the existing programmes.
Measures to Ensure Compliance of Requirements of the Direct Subsidy Scheme by Schools	
21	<u>Paragraph 7.5</u> The Working Group recommends that on top of the existing measures, the following new measures be put in place: (a) escalation of advisory letters to supervisors at the earliest opportunity – if a school, without any reasonable justification, fails to comply with a rule/guideline or rectify the malpractice within a given time-frame after the principal of the school is served with an advisory/warning letter, follow-up advisory/warning letters will be issued to the supervisor of the school, copied to the school principal; (b) escalation of warning letters to SMC/IMC members at the earliest opportunity – if a school, without any reasonable justification, fails to comply with a rule/guideline or rectify the malpractice within a given time-frame after a advisory/warning letter has been written to the supervisor of the school, follow-up advisory/warning letters will be sent to the supervisor again but this time, the letter will be copied to

No.	Recommendation
	all the SMC/IMC members of the school as well; (c) disclosure of the non-compliance or malpractice – after exhaustion of the steps in paragraphs (a) and (b) above and if the malpractice remains to be rectified, the regional Principal Education Officers of the EDB may put up the case for discussion by the Task Force on DSS. With the Task Force's endorsement, the EDB will post the non-compliance (including a description of the malpractice) with the school concerned named on the EDB's website; and (d) suspension of DSS subsidy – if a school fails to comply with an important requirement or rectify serious malpractice after exhaustion of the steps mentioned in paragraphs (a) and (b) above, the Task Force on DSS may decide to take the measure in paragraph (c) prior to, or in addition to, withholding part of the DSS subsidy of the school until rectification is made. In order to ensure that the interests of students are not unduly affected, the EDB will assess the financial situation of the school before withholding the school's DSS subsidy.
Status of Li Po Chun United World College of Hong Kong in the Direct Subsidy Scheme	
22	<u>Paragraph 8.14</u> Having reviewed the justifications put forward by the then ED and EMB for allowing Li Po Chun United World College of Hong Kong (LPCUWC) to remain in the DSS in 1999 and 2002, and taken into account the uniqueness of LPCUWC, the benefits it brings to students in Hong Kong and the downside of changing the funding mode of LPCUWC, the Working Group recommends the continuation of the status quo, i.e. that LPCUWC be allowed to continue to remain in the DSS.

Appendix III

Relevant papers on issues related to the Direct Subsidy Scheme schools

Committee	Date of meeting	Paper
Panel on Education	6.7.2009 (Item II)	Agenda Minutes CB(4)359/12-13(01)
Panel on Education	11.7.2011 (Item III)	Agenda Minutes
Panel on Education	20.4.2012 (Item IV)	Agenda Minutes
Public Accounts Committee	-	Report No. 55 (Chapter 1 of Part 8)
Finance Committee	12.4.2013	Minutes (Chapter XX) (pages 248-266)
Legislative Council	5.6.2013	Official record of Proceedings Pages 33 – 41 (Question 4)
Legislative Council	10.7.2013	Official record of Proceedings Pages 44 – 55 (Question 2) and Pages 105 – 180 (Question 15)

Council Business Division 4
Legislative Council Secretariat
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