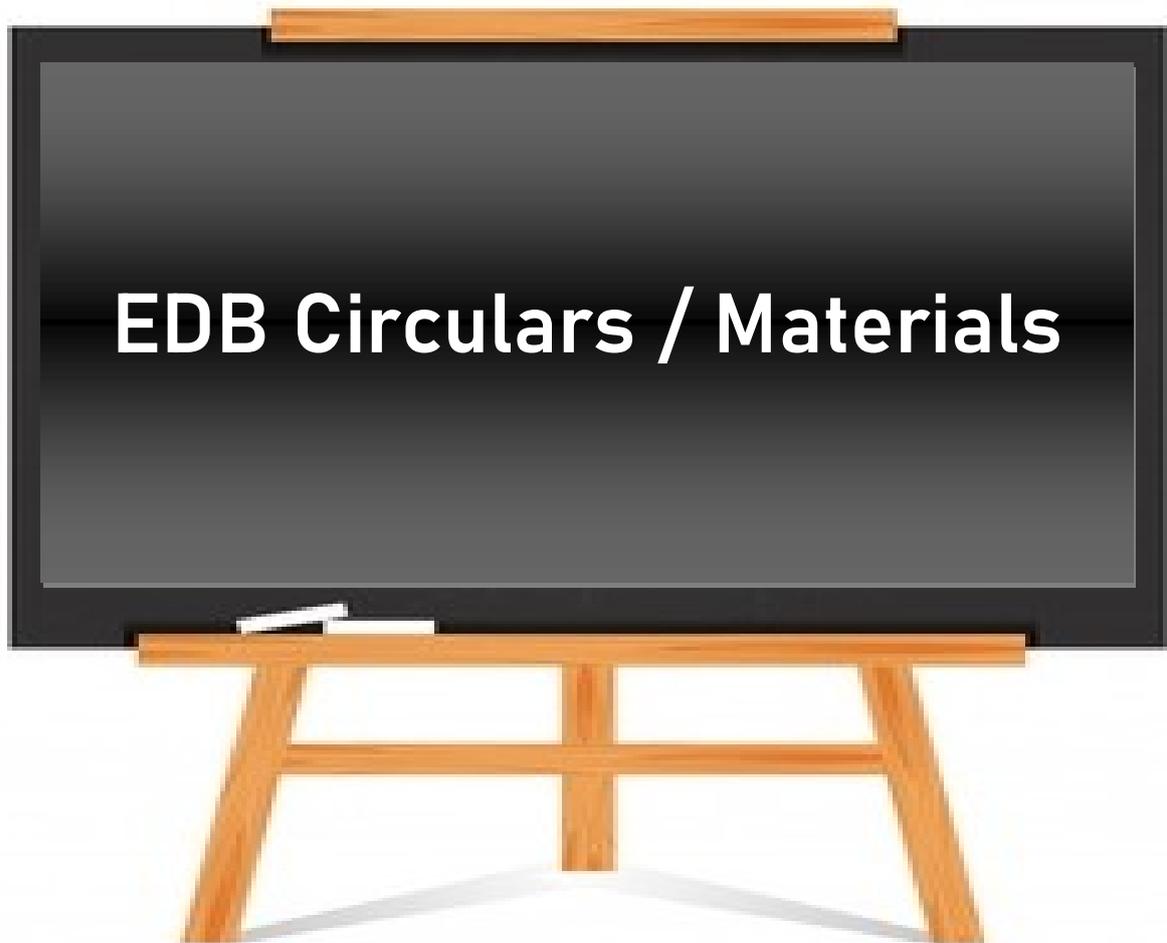




Hong Kong Direct Subsidy Scheme Schools Council
香港直接資助學校議會



Book I

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30 July 2012

Education Bureau Circular No. 7/2012

Improvement Measures to Strengthen the Governance and Internal Control of Direct Subsidy Scheme (DSS) Schools

[Note: This circular should be read by –

- (a) Supervisors and Heads of Direct Subsidy Scheme Schools – for action; and
- (b) Heads of Sections – for information.]

SUMMARY

Good governance and sound internal control are the cornerstones of the success of a DSS school. This circular sets out the implementation details of the improvement measures on strengthening the governance and internal control of DSS schools as recommended by the Working Group on DSS¹ (Working Group).

DETAILS

2. The Working Group is of the view that DSS schools have added much desired diversity to the school system. Their diversity and flexibility should be respected and the Education Bureau (EDB) should continue to refrain from micro-managing DSS schools. That notwithstanding, the EDB definitely has a custodian role to play in safeguarding the interest of the public money, parents of DSS schools and the community at large. The Working Group hence comes to a view that EDB's monitoring and oversight should be complemented by DSS schools' own governance and internal accountability. The Working Group has therefore put forward recommendations² that focus mainly on setting parameters and creating an enabling environment for sound governance and internal control to take root in DSS schools. In operational terms, the emphasis is put on

¹ In response to the recommendations in the Director of Audit's Report No.55 by the Audit Commission and the Public Accounts Committee (PAC) Report No.55 by the PAC of the Legislative Council about DSS schools, the EDB set up the Working Group on DSS in February 2011 to review the administration of the DSS as well as the governance and administration systems of DSS schools. The Working Group submitted its recommendations to the Secretary for Education in December 2011, and the Secretary for Education accepted all the recommendations on 17 February 2012.

² Details of the relevant recommendations in respect of governance and internal control of DSS schools are set out in Chapter 4 of the Report of the Working Group on DSS, which can be accessed via the following link:

http://www.edb.gov.hk/FileManager/EN/Content_175/dss%20report_full.pdf.

enhancing the transparency of important management information to key stakeholders; and building a healthy management structure and culture with proper checks and balances to ensure accountability. Premised on these guiding principles, we have worked out the implementation details of the Working Group's recommendations in consultation with the DSS schools sector. Details are set out in the ensuing paragraphs.

Enhancing transparency of school governing bodies

3. The community especially parents of prospective and current students of DSS schools have expectations of greater transparency of school governing bodies. DSS schools with Incorporated Management Committee (IMC) are obliged to disclose the manager's name, tenure of office and category of manager under the Education Ordinance³. As for DSS schools with School Management Committee (SMC), the EDB will, after seeking the consent of their managers, upload the manager information including the name, tenure of office/date of registration and category of manager onto the EDB's website **as from the 2012/13 school year** for public reference. For schools with managers who have not given consent to the disclosure of their information, the EDB will add a remark indicating the number of managers concerned and the respective categories, if applicable, of these managers on the relevant part of the EDB's homepage.

Enhancing internal control mechanism

4. To facilitate enhancement of internal governance while respecting the diversity of DSS schools and obviating the need for the EDB to micro-manage DSS schools' day-to-day operation, we will work in collaboration with DSS schools to put in place a framework that comprises three inter-related aspects, viz. a self-evaluation checklist, the setting up of a functional mechanism under the SMC/IMC to assist the governing body in ensuring the integrity and faithful implementation of various key management and financial systems, and a list of essential items to be discussed at SMC/IMC meetings. Training will be provided for DSS schools in the 2012/13 school year to support their school personnel to implement the framework.

³ Section 8 of the Education Ordinance (Cap. 279) provides that the Permanent Secretary shall maintain a register of incorporated management committees, in which shall be entered -

- (a) the name of every incorporated management committee; and
- (b) in respect of each incorporated management committee, the name and tenure of office of each manager and the category of manager specified in section 40AL(2) to which he belongs.

The entries shall be made available in such manner as the Permanent Secretary thinks fit for public inspection to -

- (a) enable any member of the public to ascertain whether he is dealing with a manager; and
- (b) ensure transparency and accountability of the incorporated management committee.

(I) Completion of the Self-evaluation Checklist

5. To facilitate DSS schools' internal monitoring and help them avoid omissions of important processes in school operations occasionally associated with turnover of school managers, principals and other supporting staff, the EDB is devising a self-evaluation checklist (Checklist) covering the following four areas of school operations in collaboration with the Hong Kong DSS Schools Council for use by DSS schools:

- (a) general administration of the school governing body;
- (b) operation of school fee remission/scholarship schemes;
- (c) human resources management matters; and
- (d) financial management matters.

6. The Checklist will be put to trial use by DSS schools **in the 2012/13 school year**. DSS schools will be informed separately when the Checklist is ready for use.

7. Feedback will be collected from DSS schools on the use of the Checklist. Where necessary, refinement will be made having regard to the experience gained. It is expected that the Checklist will be put to formal use by DSS schools **as from the 2013/14 school year**. DSS schools may adapt the Checklist to suit their own needs. Nevertheless, any variation from the Checklist should be approved by the SMC/IMC and documented. All DSS schools will have to forward a completed Checklist of a certain school year to their respective governance review sub-committees for review in the following school year. Details of the governance review sub-committee are given in paragraphs 8-14 below.

(II) A Functional Mechanism under the SMC/IMC for System Review

8. DSS schools will have to set up a governance review sub-committee (or any other name the SMC/IMC sees fit) to assist their SMC/IMC in reviewing various key management and financial control systems and procedures including whether the various checks and balances are working as intended. DSS schools are required to form their respective sub-committees **before or by the end of the 2013/14 school year**. The first review should be completed by **the end of the 2016/17 school year at the latest**.

9. The guidelines on the operation of the governance review sub-committee are set out at the Appendix, which have also been uploaded to the EDB's website at the address below:

<http://www.edb.gov.hk/index.aspx?nodeID=173&langno=1>

10. To facilitate the smooth operation of the governance review sub-

committee, we have planned to devise tools and templates for the sub-committees' reference and/or use. When the tools and templates are ready for use, we will upload them to the above website. The guidelines, tools and templates will be updated as and when required.

11. A list of volunteers from the Hong Kong Institute of Certified Public Accountants who are willing to serve on the governance review sub-committee is being drawn up. Should DSS schools wish to enlist a suitable candidate with accounting or financial management background to serve on their governance review sub-committee, they may approach the School Administration 1 Section of the EDB at 3509 7459.

12. After setting up the governance review sub-committee, DSS schools are requested to inform the School Administration 1 Section of the EDB in writing at the following address:

School Administration 1 Section
Education Bureau
5/F, East Wing, Central Government Offices
2 Tim Mei Avenue, Tamar, Hong Kong

13. For DSS schools with their school sponsoring bodies having already set up a similar functional committee or with an independent audit department to carry out similar duties, they may apply to the EDB for exemption from setting up a governance review sub-committee. Applications with details of the structure, composition, and functions of the relevant committee/audit department should be sent to the School Administration 1 Section of the EDB **by end of February 2013**.

14. Applications will be considered on individual merits with due regard to whether the relevant committee/audit department will have comparable composition and discharge the same functions of the governance review sub-committee as laid down at the Appendix.

(III) Essential Items to be Discussed at SMC/IMC Meetings

15. DSS schools will have to put up the following essential matters, where applicable, to their SMC/IMC for discussion and approval **as from the 2012/13 school year** to forestall the inadvertent oversight of important administrative and management matters:

- (a) the human resources policies for senior teaching and administrative posts such as the recruitment, appointment, promotion and remuneration packages;
- (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.

Strengthening the monitoring of school performance

16. Enhancing the governance and internal control of DSS schools and strengthening macro external oversight by the EDB are complementary measures, which should go hand in hand to ensure proper management and administration of DSS schools. Details of the measures to strengthen the monitoring of school performance are laid down in paragraphs 17 to 19 below.

Management and Financial Audit

17. Conducted on a test-checking basis, the objectives of EDB’s existing audit inspection are to evaluate whether the DSS schools have put in place adequate internal controls, proper financial management and procurement arrangements and staff remuneration policy. 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 a more comprehensive management and financial audit **starting from the 2014/15 school year**.

18. Details of the management and financial audit will be announced separately in due course. Relevant training will be provided for DSS schools before the commencement of the management and financial audit.

Measures to Ensure Compliance of Requirements

19. To enhance the existing mechanism to ensure compliance of requirements and rectification of malpractice in a timely manner, we will implement the following measures **as from the 2012/13 school year**:

- (a) If a school fails to comply with a rule or rectify a malpractice within a

given time-frame after the school is served an advisory/warning letter, the EDB will bring the non-compliance or malpractice to the attention of the school's supervisor and/or the SMC/IMC members at the earliest opportunity; and

- (b) If the non-compliance or malpractice persists after exhaustion of the steps in (a) above, the EDB will, depending on the nature of the case and the school's financial situation, post the non-compliance or malpractice of the school concerned onto the EDB's website and/or withhold part of the DSS subsidy of the school until rectification is made. Before withholding the school's DSS subsidy, the EDB will carefully assess its financial situation in order to ensure that the interests of its students will not be affected.

ENQUIRY

20. For enquiries about applications for exemption from setting up the governance review sub-committee, please contact the School Administration 1 Section of the EDB at 3509 7459. For enquiries about the implementation details of other measures, please contact the respective Senior School Development Officers.

Miss Alice YU
for Permanent Secretary for Education

**Guidelines on the Operation of the
Governance Review Sub-committee**

Composition

1. The governance review sub-committee (GRSC) will comprise at least three members appointed by the SMC/IMC, including
 - (a) one member being a manager of the school; and
 - (b) one member preferably with experience and qualification in accounting/financial management.
2. The Chairperson of the GRSC may either be elected among committee members or selected by the SMC/IMC subject to the school-based arrangement. Appointment of the Chairperson and members should be endorsed by the SMC/IMC with proper documentation.
3. To maintain the independence and credibility of the GRSC, members will serve the GRSC on a voluntary basis. As the sub-committee is formed under the SMC/IMC and reports to the SMC/IMC, members, like members of the SMC/IMC, will serve on a non-remunerated basis as well.
4. For avoiding conflict of interests, parents of students studying in the school should not be invited as a member of the sub-committee. Also, for avoiding of conflict of interests, all the members should not be among the paid staff of the school, including the principal and senior teachers/heads of functional committees of the school. The SMC/IMC of DSS schools are encouraged to enlist an independent member⁴ to serve on the GRSC to offer independent views on the school's policies and procedures. The GRSC members and school staff participating in GRSC meetings are reminded to keep confidentiality of what has been discussed and decided at GRSC meetings.
5. The GRSC may invite paid staff of a DSS school including the principal and senior teachers/heads of functional committees to attend meetings or serve as resource persons to facilitate the internal review. Restricted session(s) should be arranged for the official members of the GRSC to finalise its reports / findings for submission to the SMC/IMC.

Functions / Terms of Reference

6. In advising the SMC/IMC, the GRSC will, with the assistance of the principal and the senior teachers / heads of functional committees –

⁴ The independent manager of the SMC/IMC is also regarded as an independent member.

- (a) review school-based policies and procedures on human resources management matters including staff recruitment, promotion, remuneration, etc;
 - (b) review school-based policies and procedures on financial management matters including school budgeting, financial reporting, procurement, investment, transfer of funds from the operating reserve to designated reserves, etc; and
 - (c) review the operation of school fee remission/scholarship schemes.
7. Subject to their individual needs, the SMC/IMC may request the GRSC to assist in other management functions such as recommending persons for appointment as external auditors.
8. Specifically, key domains and areas to be reviewed are listed at Annex 1.

Implementation Timeframe and Details

9. DSS schools will have to set up the GRSC **before or by the end of the 2013/14 school year**. In principle, the GRSC is required to complete a review of all the school-based policies and procedures under the three domains as set out at Annex 1 within a three-year cycle. The number of meetings to be held by the GRSC each year will be determined by individual SMC/IMC on a need basis. The first review should be completed by **the end of the 2016/17 school year at the latest**.
10. Within the three-year cycle, the SMC/IMC should determine the areas to be reviewed each year and the GRSC should then submit a review report on studied areas to the SMC/IMC annually. The review report should contain recommendations for follow-up actions. Whether and how the review reports will be released to stakeholders of the school for information is a school-based decision to be deliberated and decided by the SMC/IMC. The EDB shall have access to such reports on a need basis, e.g. during External School Review, Management and Financial Audit, investigation of malpractices.
11. The GRSC is required to follow the above schedule in conducting the review in the first three-year cycle. As for the arrangements after the first three-year cycle, DSS schools are strongly encouraged to continue to spread the review over three years so that timely rectification or improvement can be made at the earliest possible time. Should the GRSC have justifications for a deviation from the above schedule, it may put up its proposed schedule having regard to the experience gained in the first cycle for deliberation and decision by its SMC/IMC. The decision made should be properly recorded.
12. A flowchart on the procedures on conducting the review on a specific

area is at Annex 2.

13. In case the GRSC encounters any unforeseeable difficulties beyond its ability or capacity to resolve during the course of work, it may seek the SMC/IMC's steer or recommend to the SMC/IMC for seeking external assistance, including approaching the EDB for advice or appointing external auditors or other professionals for support as appropriate.

14. Before submitting its review report to the SMC/IMC, the GRSC should give an advance copy of the review report to the principal and senior teachers/heads of functional committees of the school for information and/or comment. The school personnel may give its response to the GRSC direct. If considered necessary, the school personnel may also choose to submit a written response to the SMC/IMC so that the SMC/IMC will consider the GRSC report having regard to the written response of the school personnel concerned.

**Key Domains to be Reviewed
by the Governance Review Sub-committee**

Domain A: Human Resources Management

- Areas: (1) Staff Recruitment and Remuneration Policy
(2) Staff Performance Management System including Promotion/Demotion
(3) Complaints Mechanism (Staff and Public)
(4) Others

Domain B: Financial and Resources Management

- Areas: (1) Fees and Collections Policy
(2) Budgeting and Accounting Practices
(3) Tendering and Procurement Policy
(4) Trading Operation
(5) Investment Policy
(6) Acceptance of Advantages and Donations
(7) Fund Raising Activity
(8) Others

Domain C: School Fee Remission / Scholarship Scheme

- Areas: (1) Criteria for Awarding Fee Remission / Scholarship
(2) Application Procedures, Approving and Appeal Mechanisms
(3) Publicity of Fee Remission / Scholarship Scheme
(4) Others

Proposed Procedures on Conducting Review of School-based Policies

Step 1

CHECKING whether the school has put in place the relevant school-based policy with proper deliberation and approval of the SMC/IMC.



Step 2

EXAMINING whether

- the school-based policy is in compliance with the statutory and administrative requirements;
- the school-based policy is properly implemented; and
- there are sufficient control systems for the school-based policy and if yes, whether they are working as intended.



Step 3

RECOMMENDING improvements on the school-based policy, its implementation and control system as necessary.



Step 4

PROVIDING the principal and senior teachers/heads of functional committees of the school with an advance copy of the GRSC report for information and /or comment.



Step 5

REPORTING the findings to the SMC/IMC.

22 June 2012

Education Bureau Circular No. 10/2012

Fee Remission/Scholarship Schemes in Direct Subsidy Scheme (DSS) Schools

[Note: This circular should be read by –

- (a) Supervisors and Principals of DSS Schools – for action; and
- (b) Heads of Sections – for information.]

SUMMARY

This circular recapitulates the existing requirements for the fee remission/scholarship schemes in DSS schools, and sets out implementation details of the recommendations in respect of the fee remission/scholarship schemes in DSS schools put forward by the Working Group on DSS¹ (Working Group). This circular supersedes Education Bureau (EDB) Circular No. 2/2011 dated 5 July 2011.

DETAILS

Existing Arrangements

2. In order to ensure that students will not be deprived of the opportunity to attend DSS schools solely because of their inability to pay fees, each DSS school is required to offer to parents a fee remission/scholarship scheme with a set of eligibility benchmarks no less favourable than the government financial assistance schemes for needy students. In assessing the students' eligibility for fee remission, no factors except the parents' financial situation should be taken into consideration.

3. At least 10% of the school's total school fee income should be set aside to provide fee remission/scholarship for deserving students. If a DSS school charges a school fee between $\frac{2}{3}$ (two-third) and $2\frac{1}{3}$ (two and one-third) of the DSS unit subsidy rate, the school should set aside 50 cents for the fee

¹ In response to the recommendations in the Director of Audit's Report No.55 by the Audit Commission and the Public Accounts Committee Report No.55 by the Public Accounts Committee of the Legislative Council about DSS schools, the EDB set up the Working Group on DSS in February 2011 to review the administration of the DSS as well as the governance and administration systems of DSS schools. The Working Group submitted its recommendations to the Secretary for Education in December 2011, and the Secretary for Education accepted all the recommendations on 17 February 2012.

remission/scholarship scheme for every additional dollar charged over and above 2/3 (two-third) of the DSS unit subsidy rate. The total amount of funds set aside for the fee remission/scholarship scheme as described above should be calculated on the basis of the school fee levels as set out in the Fees Certificate issued by the EDB.

New Measures Introduced in the 2011/12 School Year

4. In the light of the recommendations made by the Audit Commission (AC) and the Public Accounts Committee (PAC) of the Legislative Council in the Director of Audit's Report No.55 and the PAC Report No.55 respectively about DSS schools' fee remission/scholarship schemes, the EDB introduced in the 2011/12 school year various new measures that would further increase the transparency and access of information of the fee remission/scholarship schemes, and provide parents who are receiving the Comprehensive Social Security Assistance (CSSA) or with financial difficulties with the necessary information to facilitate them to make an informed choice of schools.

5. Details of the new measures implemented as from the 2011/12 school year are as follows:

- (a) DSS schools are required to consult their School Management Committee (SMC)/Incorporated Management Committee (IMC) or parent-teacher associations on the operation of their school fee remission/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/scholarship schemes and in the School Profile, a hyper-link through which details of the school fee remission/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/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/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/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/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/scholarship schemes of individual DSS schools to facilitate interested parents to get the information they need easily.

Implementation Details of the Working Group's Further Recommendations

Providing additional financial subsidy for needy students

6. Currently, when the reserve for the fee remission/scholarship scheme of a DSS school has reached a cumulative amount that exceeds the school's half-year total fee income due to low utilisation of the scheme, the SMC/IMC should devise a plan on how this specific reserve could be effectively deployed and submit it to the EDB for consideration. Acceptable options to avoid excessive reserve include:

- (a) relaxing the criteria for awarding fee remission/scholarship;
- (b) reducing the school fees;
- (c) subsidizing eligible students in their purchase of textbooks/reference books/stationery; and
- (d) sponsoring eligible students for joining extra-curricular activities, such as overseas educational visits and exchange study programmes, etc.

7. The options above are by no means exhaustive. The Working Group has recommended 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 outlined in paragraphs 2 and 3 above. In this connection, DSS schools with sizable fee remission/scholarship reserves are encouraged to continue to explore ways to better utilize their fee remission/scholarship reserves and to provide additional financial assistance for needy students. DSS schools, however, are reminded that the fee remission/scholarship reserve should aim to assist needy students lacking means in studying in DSS schools, and they should award students scholarship on a merit basis. In other words, DSS schools need to devise their school-based criteria with appropriate selective elements for using the reserve. While the Working Group does not recommend setting a cap for scholarship, DSS schools should demonstrate that their fee remission and scholarship criteria are well thought-out with due regard to their mix of students.

Exemption from the requirement for DSS schools to adopt eligibility criteria for fee remission schemes no less favourable than those of the government financial assistance schemes

8. There are cases where DSS schools have been topping up the fee remission/scholarship provisions by using their non-government funds because they have admitted a large number of needy students. To help DSS schools of this kind maintain a sustainable mode of operation of their fee remission/scholarship scheme, the Working Group has recommended that DSS schools meeting the following criteria be allowed to apply to the EDB for exemption from the requirement for DSS schools to adopt eligibility criteria for fee remission schemes no less favourable than those of the government financial assistance schemes:

- (a) 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
- (b) 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.

9. In this connection, should DSS schools meeting the above criteria decide to apply for the exemption, they have to first put up the revised eligibility criteria for discussion and endorsement by their SMC/IMC. DSS schools are reminded of the following in devising the revised eligibility criteria and deciding the implementation date:

- (a) needy students eligible for financial assistance under the government financial scheme ought to be granted fee remission under the revised eligibility criteria, though the level of fee remission granted may be different from the level of financial assistance awarded under the government financial schemes. For example, the two levels of financial assistance, i.e. full and half, under the government financial scheme are divided into five levels of financial assistance, i.e. 100%, 80%, 60%, 40% and 20% under a school's revised

eligibility criteria. Students originally awarded half level of financial assistance under the government financial scheme may be granted 60%, 40% or 20% of financial assistance under the school's revised eligibility criteria;

- (b) 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 if the new criteria are less favourable to them; and
- (c) sufficient notice² must be given to prospective parents/students before the new eligibility criteria are implemented, and the revision must also be made available for public consumption as per the measures to enhance the transparency and accessibility of information of the fee remission/scholarship schemes set out in paragraph 5 above.

10. Upon their SMC/IMC's approval, DSS schools may apply to their respective Senior School Development Officers for exemption. A sample letter for such applications is prepared at Annex I for the reference of DSS schools.

11. The Working Group has also recommended that the exemption to DSS schools should be cancelled once:

- (a) 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
- (b) 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 purposes.

12. In this connection, if a DSS school is granted exemption, it will be required to report the percentage of its fee remission/scholarship provision that is used for fee remission purposes under the revised eligibility criteria in its audited accounts for assessment by the EDB. The format of the audited accounts will be revised accordingly in due course.

Better utilization of fee remission/scholarship reserves in through-train secondary and primary schools

13. To facilitate better utilization of fee remission/scholarship reserves in through-train secondary and primary schools, thereby enabling them to admit more needy students overall, the Working Group has recommended 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

² Prospective parents/students have to be notified of the revised eligibility criteria before they are offered a school place at the latest.

secondary school or vice versa should they meet the following conditions and obtain prior approval from their SMC/IMC:

- (a) the utilization rates of the fee remission/scholarship provisions of the linked school which is to receive funds are 100% or more as reflected in the audited accounts of the past three consecutive years; and
- (b) in the past three years, two thirds of the fee remission/scholarship provisions or more of the linked school which is to receive funds are used for fee remission purposes as confirmed by the schools.

14. In this connection, should through-train secondary and primary schools meeting the above criteria decide to apply for transfer of reserves, they have to first consult parents of the linked school which is to contribute its reserves and then put up a proposal including the amount of funds to be transferred for discussion and endorsement by their SMC/IMC.

15. Upon their SMC/IMC's approval, through-train secondary and primary schools may apply to their respective Senior School Development Officers for the transfer of reserves between the linked schools. A sample letter for such applications is prepared at Annex II for the reference of through-train secondary and primary schools. A fresh application is needed for each proposed transfer of reserves.

ENQUIRY

16. For enquiries about the implementation details of the measures as set out in this circular, please contact the respective Senior School Development Officers.

Miss P L WU
for Permanent Secretary for Education

Sample Letter

To: Senior School Development Officer ()
Education Bureau

**Application for Exemption from the Requirement
for DSS Schools to Adopt Eligibility Criteria for Fee Remission Schemes
No Less Favourable than those of Government Financial Assistance Schemes**

I write to apply for exemption from the requirement for DSS schools to adopt eligibility criteria for fee remission schemes no less favourable than those of government financial assistance schemes with effect from the _____ *s.y.(school year)*. I certify that the utilization rates of my school's fee remission/scholarship provisions are 100% or more in the past three school years*, i.e. _____ *s.y.(school year)*, _____ *s.y.(school year)*, _____ *s.y.(school year)*. The following supporting documents are attached:

- (i) Copies of relevant parts of the audited accounts of my school which show my school's fee remission/scholarship provisions and their utilization in the past three school years as mentioned above ; and
- (ii) Proposed revised eligibility criteria for the fee remission scheme of my school, which has been approved by the SMC/IMC.

I also certify that in overall terms, during the three school years as mentioned above, two thirds or more of the fee remission/scholarship provisions have been used for fee remission purposes. Relevant records are available for the Education Bureau's scrutiny where necessary.

For needy students eligible for financial assistance under the government financial scheme, they will be granted fee remission under the revised eligibility criteria, though the level of fee remission granted may be different from the level of financial assistance awarded under the government financial schemes. For existing students receiving fee remission before my school adopts the above revised eligibility criteria, they will continue to receive fee remission under the previous eligibility criteria which are no less favourable than those of the government financial assistance schemes until they graduate from the school.

Prospective parents/students will be informed of the revised eligibility criteria via the measures as set out in paragraph 5 of the EDB Circular No. 10/2012 on Fee Remission/Scholarship Schemes in Direct Subsidy Scheme (DSS) Schools on _____ (*date*).

Signature of School Supervisor: _____

Name of School Supervisor: _____

School: _____

Date: _____

* The latest three school years with audited accounts available

Sample Letter

To: Senior School Development Officer ()
Education Bureau

Application for Transfer of Fee Remission/Scholarship Reserve
within Through-train Schools

We write to apply for the transfer of (a proposed amount) from
the fee remission/scholarship reserve of (the
linked school to contribute funds) to (the linked
school to receive funds). We certify that the utilization rates of the fee
remission/scholarship provisions of the linked school to receive funds are 100%
or more in the past three school years*, i.e. S.y.(school year), S.y.
(school year), S.y.(school year). The following supporting documents are
attached for your consideration:

- (i) A copy of the relevant part of the latest audited account, i.e. the
audited account for S.y.(school year), of the linked school
to contribute funds, which shows the latest accumulated funds in the
fee remission/scholarship reserve of the school; and
(ii) Copies of the relevant part of the audited accounts of the linked
school to receive funds which show that the linked school's fee
remission/scholarship provisions and their utilization in the past
three school years as mentioned above.

We certify that during the three school years as mentioned above, two
thirds or more of the fee remission/scholarship provisions of the linked school
which is to receive funds have been used for fee remission purposes. Relevant
records are available for the Education Bureau's scrutiny where necessary.

We also confirm that we have consulted the parents of the linked school
which is to contribute its reserves and addressed their concerns, and the proposed
transfer of reserves will not affect the interests of needy students in the linked
school which is to contribute its reserves.

Name of School Name of School
to contribute funds: to receive funds:

Signature of Signature of
Supervisor: Supervisor:

Name of Name of
Supervisor: Supervisor:

Date:

* The latest three school years with audited accounts available

29 August 2012

Education Bureau Circular No. 16/2012

Delineation of Reserves and Reserve Ceiling for the Operating Reserve of Direct Subsidy Scheme (DSS) Schools

[Note: This circular should be read by –

- (a) Supervisors and Heads of Direct Subsidy Scheme Schools – for action; and
- (b) Heads of Sections – for information.]

SUMMARY

This circular sets out the implementation details of the recommendations put forward by the Working Group on DSS¹ (Working Group) in respect of the delineation of reserves, the reserve ceiling for the operating reserve and the special one-off arrangement for surplus in excess of the reserve ceiling.

DETAILS

Clear delineation between the operating reserve and the designated reserve

2. Reserves of DSS schools will be classified into two categories, namely the operating reserve and the designated reserve, with a view to facilitating DSS schools' financial management and helping their stakeholders understand the financial situation of the schools.

3. Accumulated surplus arising from both government and non-government funds (except for those in the designated reserve) will be classified as the operating reserve. As for the designated reserves, they include (i) school fee remission/scholarship reserve, (ii) long service payment reserve, (iii) reserve for donations with specific purposes and (iv) reserve for constructing, maintaining and upgrading above-standard facilities.

¹ In response to the recommendations in the Director of Audit's Report No.55 by the Audit Commission and the Public Accounts Committee (PAC) Report No.55 by the PAC of the Legislative Council about DSS schools, the EDB set up the Working Group on DSS in February 2011 to review the administration of the DSS as well as the governance and administration systems of DSS schools. The Working Group submitted its recommendations to the Secretary for Education in December 2011, and the Secretary for Education accepted all the recommendations on 17 February 2012.

Setting up of the reserves

4. In this connection, the balance of the accumulated surplus of schools **as at the end of the 2011/12 school year** will be used as the basis for delineation between the operating reserve and the four designated reserves. Requirements of these five reserves are set out in the ensuing paragraphs.

Operating Reserve

5. All the surplus other than those in the designated reserves as set out in paragraphs 6 - 23 below are recorded under the operating reserve.

Designated Reserve – (i) School Fee Remission/Scholarship Reserve

6. All unspent balances of the provisions for the school fee remission/scholarship scheme accumulated in or before the 2011/12 school year, if any, should be recorded under the school fee remission/scholarship reserve.

7. There is no change regarding the requirements for setting aside school fee income for school fee remission/scholarship scheme, i.e. at least 10% of a school's total school fee income or 50 cents for the school fee remission/scholarship scheme for every additional dollar of school fee charged over and above 2/3 of the DSS unit subsidy rate, whichever is greater, should be set aside.

8. For schools having used up all the provisions and the accumulated reserve of the school fee remission/scholarship scheme in a school year, they can continue to top up their school fee remission/scholarship reserve by transferring the non-government funds in the operating reserve to this reserve on an actual need basis.

9. Transfer of funds in the school fee remission/scholarship reserve out to other reserves is prohibited unless with the special approval of the Education Bureau (EDB).

10. Under the existing requirement, when the reserve of school fee remission/scholarship scheme has reached a cumulative amount which exceeds a school's half-year total school fee income due to low utilisation of the school fee remission/scholarship provision, the school should forward to the EDB a plan on how this specific reserve could be effectively deployed. This standing requirement will continue.

11. Only non-government funds can be recorded under/transferred to this reserve.

Designated Reserve – (ii) Long Service Payment Reserve

12. **As from the 2012/13 school year**, DSS schools may transfer funds from the operating reserve to this reserve equivalent to the amount required to meet the level of minimum requirements under the Employment Ordinance after taking into account the employees' Mandatory Provident Fund (MPF)/retirement scheme benefits already provided.

13. For transfer of funds above the level of minimum requirements under the Employment Ordinance, the corresponding long service payment policy should be endorsed by their School Management Committee (SMC)/Incorporated Management Committee (IMC) with proper documentation kept for checking by the EDB on a need basis.

14. If the required long service payments can be offset by employees' MPF/retirement scheme benefits in accordance with the Employment Ordinance or guidelines issued by the Labour Department, the relevant amount already set aside in this reserve has to be transferred back to the operating reserve. Schools may make such rectifications annually or at least once every three years in their audited accounts. The rectifications should be certified by the schools' auditors and the details should be kept for checking by the EDB on a need basis.

15. If DSS schools have already set aside funds in or before the 2011/12 school year for long service payment, they may record those funds under this reserve in the 2011/12 audited accounts. In this connection, the schools concerned will be required to keep relevant records/proof of their funds already set aside, e.g. list of relevant reserves as at the end of the 2010/11 school year as shown in the audited accounts, list of staff with their entitled long service payment, for checking by the EDB on a need basis.

16. Both government and non-government funds can be recorded under/transferred to this reserve.

Designated Reserve – (iii) Reserve for Donations with Specific Purposes

17. Only donations with specific purposes² could be recorded under this reserve. Donations without specific purposes should be recorded under the operating reserve.

18. DSS schools will be required to keep details of the donations with specific purposes and proof of the intended uses as specified by the donors or planned uses as endorsed by their SMC/IMC including timeframes for planned projects/activities where appropriate for checking by the EDB on a need basis.

² These refer to donations with intended uses as specified by the donors OR planned uses as endorsed by the SMC/IMC.

19. Only non-government funds can be recorded under/transferred to this reserve.

Designated Reserve – (iv) Reserve for Construction, Maintenance and Upgrading of Above-standard Facilities

20. **As from the 2012/13 school year**, it will be at DSS schools' own discretion to start transferring up to 10% of the school fee income to the reserve for above-standard facilities when they prepare the 2012/13 audited accounts if they have fully met the following requirements with proper documentation kept:

- (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); and
- (c) there remains cash in the operating reserve equivalent to six months' or more of the schools' expenses after the transfer of funds.

21. For transfer of more than 10% of the school fee income to the reserve or if after the transfer, the cash in the operating reserve account falls below six months' expenses of the schools, DSS schools will be required to seek prior approval from the EDB. Applications for such transfer, which have to include the justifications and the documents as set out in paragraph 20 (a) and (b) above, should be sent to schools' respective Senior School Development Officers three months before the deadline for schools' submission of the audited accounts in which the proposed transfer of funds is made. Applications will not be approved should the cash in the operating reserve account of the schools fall below three months' expenses after the proposed transfer.

22. If DSS schools have already set aside funds in or before the 2011/12 school year for above-standard facilities with the approval of the SMC/IMC, they may record those funds under this reserve in the 2011/12 audited accounts. In this connection, the schools concerned will be required to keep relevant proof of their projects and the amount already set aside, e.g. records of decisions at SMC/IMC meetings, for checking by the EDB on a need basis.

23. Only non-government funds can be recorded under/transferred to this reserve.

Submission of the allocation of the reserves

24. DSS schools will be required to reflect their allocation of the above five reserves in the 2011/12 audited accounts, and to return the completed 2011/12 audited accounts to the EDB by **end-March 2013**. A proforma for such purpose is at Annex 1 for advance information of schools. The funds in the operating reserve and designated reserves have to be certified by schools' auditors. Details

will be provided in our circular memorandum for 2011/12 audited accounts to be issued to schools later.

Reserve ceiling

25. In line with the requirements promulgated by the Administration for setting an appropriate reserve ceiling of surpluses kept by subvented organisations including DSS schools and in consideration of the need to enable DSS schools to put in place longer-term development strategies, the ceiling on the operating reserve will be set at an amount equal to 100% of the annual total expenditure of the school, i.e. 12 months' operating expenditure as reflected in the audited accounts of the same school year.

26. The reserve ceiling will be implemented **as from the 2013/14 school year** with a view to giving DSS schools sufficient time for planning. In other words, the accumulated total balance of the operating reserve (excluding the grandfathered amount, details of which being set out in paragraphs 30-33 below) and the annual expenditure as reflected in the 2013/14 audited accounts will be used to determine whether a DSS school's operating reserve has exceeded the reserve ceiling for the first time. For example, if the operating reserve (excluding the grandfathered amount) and the annual expenditure of a DSS school in the 2013/14 school year are \$55 million and \$50 million respectively, the amount in excess of the reserve ceiling (i.e. \$55 million - \$50 million = \$5 million) will be subject to the arrangements as set out in paragraph 27 below.

27. For DSS schools with accumulated operating reserve exceeding the ceiling as reflected in the audited accounts as from the 2013/14 school year, they will be given the following options to rectify the situation:

- (a) schools may choose to submit a plan on how to reduce 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;
- (b) schools may choose to receive less DSS subsidy in the forthcoming school year, i.e. the amount exceeding the ceiling will be deducted from the DSS subsidy to be paid to the school in the next payment;
- (c) schools may choose to return the surplus in excess of the ceiling to the Government in a specified timeframe; or
- (d) schools may choose to transfer the surplus in excess of the ceiling to the school fee remission/scholarship reserve subject to the following conditions being met:
 - there is no surplus in the school fee remission/scholarship reserve as reflected in the latest audited accounts;
 - the utilization rates of the school fee remission/scholarship provisions are 100% or more in the past three consecutive

years; and

- the amount that can be transferred to the school fee remission/scholarship reserve is subject to EDB's approval.

28. In this connection, starting from the exercise for submission of the **2013/14 audited accounts**, 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. Details of the arrangements will be set out in the annual circular memorandum on the submission of the audited accounts by DSS schools.

29. Under exceptional circumstances, DSS schools with operating reserve (excluding grandfathered amount) exceeding the reserve ceiling may apply to the EDB for exemption from the options as set out in paragraph 27 above and carrying forward the excess surplus to the next school year. For instance, a DSS school can demonstrate with evidence that the part of surplus in excess of the reserve ceiling is wholly due to the adjustment of DSS subsidy after the DSS unit subsidy rates are finalized in October. Such applications should be sent to schools' respective Senior School Development Officers within one month after the deadline for schools' submission of the audited accounts. In addition, to cater for the practical needs of schools with additional school buildings such as an extension block of classrooms within the school premises financed by non-government funds in the operating reserve, the net book value of such additional school buildings will not be counted when we determine whether schools' operating reserve has exceeded the reserve ceiling. In this connection, if a school finds that its surplus in excess of the reserve ceiling comes from the net book value of additional school buildings within the school premises in the operating reserve, it should provide such information when submitting its audited account. Such cases will be considered on their own merits.

Special one-off arrangement for surplus in excess of the reserve ceiling

30. As a special one-off arrangement, DSS schools will be allowed to grandfather the part of the operating reserve in excess of the reserve ceiling accumulated before the implementation of the 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; and
- (b) the plans are approved by the EDB.

31. In this connection, the balance of the operating reserve **as at the end of the 2011/12 school year** will be used as the basis for calculating the amount of reserves that can be grandfathered. After allocating their accumulated surplus to

the four designated reserves in the 2011/12 audited accounts (such should be prepared by schools in early 2013), DSS schools with accumulated surplus in the operating reserve (excluding the net book value of additional school buildings within the school premises financed by non-government funds) in excess of the reserve ceiling may temporarily record the excess surplus in the 2011/12 audited accounts as proposed reserve to be grandfathered and then apply to the EDB for grandfathering such excess surplus. An example of the calculation of the amount in the operating reserve that can be grandfathered is at Annex 2. Applications for grandfathering the excess surplus together with a plan (with details of their reserves including their types, proposed usage and timeframe for deployment approved at SMC/IMC meetings) should be sent to the School Administration 3 Section of the EDB at the following address by end-June 2013:

School Administration 3 Section
Education Bureau
5/F, East Wing, Central Government Offices,
2 Tim Mei Avenue, Tamar, Hong Kong

32. The grandfathered reserves, if any, should be expended to the benefits of the students within a reasonable timeframe according to the deployment plan approved by the EDB.

33. Given the amount of reserves in the operating reserve that can be grandfathered is to be calculated based on the accumulated balance standing in the audited accounts for the 2011/12 school year while the reserve ceiling is to come into effect from the audited accounts of the 2013/14 school year, DSS schools will be allowed to carry forward the surplus in excess of 12 months' operating expenses accumulated at the end of the 2012/13 school year, if any, to the 2013/14 school year as another one-off arrangement. DSS schools should make good and prudent use of the surplus to the benefit of the students.

ENQUIRY

34. For enquiries about the delineation of reserves, the reserve ceiling for the operating reserve and the special one-off arrangement for surplus in excess of the reserve ceiling, please contact the School Administration 3 Section of the EDB at 3509 7459 or 3509 7457. For enquiries about applications for transfer of school fee income to the reserve for above-standard facilities in paragraph 21 and exemption from the options as set out in paragraph 27 to handle the reserve in excess of the ceiling, please contact the respective Senior School Development Officers.

Miss Alice YU
for Permanent Secretary for Education

Allocation of Accumulated Funds and Other Reserves as at 31 August 2012 ^(Note 1)

(For comparison purpose)	Accumulated Funds / Other Reserves	2011/12 (as at 31.8.2012)	Allocation of Accumulated Funds and Other Reserves as at 31.8.2012 to Operating Reserve and Designated Reserves				
			Operating Reserve	School Fee Remission / Scholarship Reserve	Long Service Payment Reserve	Reserve for Donations with Specific Purposes	Reserve for Construction, Maintenance and Upgrading of Above-Standard Facilities
\$		\$	\$	\$	\$	\$	\$
()	Accumulated Funds						
()	-Government funds	()	()	N/A	()	N/A	N/A
()	-Non-government funds	()	()	()	()	()	()
()	Sub-total	()	()	()	()	()	()
()	Fee Remission Reserve	()	N/A	()	N/A	N/A	N/A
()	Other Reserves						
()	-Funded under Government Funds (please specify)	()	()	N/A	()	N/A	N/A
()	-Funded under Non-government Funds (please specify)	()	()	()	()	()	()
()	Sub-total	()	()	()	()	()	()
()	Total	()	(X)	()	()	()	()
(per Balance Sheet)	(per Balance Sheet)		(Note 2)				
			(Note 3)				

N/A – Not applicable

() = Information to be supplied by schools

Notes:

- (1) This schedule will form part of the audited accounts for the 2011/12 school year.
- (2) If the total operating reserve as at 31 August 2012 exceeds the annual total expenditure of 2011/12, please provide the following breakdown. The total operating reserve as adjusted to exclude the net book value of additional school buildings within the school premises, if any, would be used solely for the purpose of determining whether the adjusted total would exceed the applicable reserve ceiling and the amount to be grandfathered.

	Total	Comprising :	
		Government funds	Non-government funds
Total operating reserve as at 31.8.2012	\$ (X) (per above)	\$ ()	\$ ()
<u>Less:</u> Net book value of additional school buildings, if any, as at 31.8.2012	(Y)	()	()
Adjusted total operating reserve as at 31.8.2012	(Z)	()	()
Comprising :			
(i) Amount equivalent to or less than the annual total expenditure of the 2011/12 school year	()	()	()
(ii) Amount in excess of the annual total expenditure of the 2011/12 school year (i.e. (i) above) and to be grandfathered	()	()	()
Total	(Z)	()	()
Annual total expenditure of 2011/12 school year	()		

- (3) These balances will form the opening balances for respective reserves in 2012/13 accounts.

**Examples of Calculation of Grandfathered Reserve
(Based on the Accumulated Surplus in the 2011/12 School Year)**

**Example 1: WITHOUT Net Book Value of Additional School Buildings
Financed by Non-government Funds in the Operating Reserve**

A. Accumulated Surplus and Annual Expenditure in the 2011/12 School Year

1	Accumulated surplus as at end of the 2011/12 school year:	\$88 million
2	Annual expenditure of the 2011/12 school year, i.e. reserve ceiling:	\$60 million

B. Setting Up of the Operating Reserve and Designated Reserves

3	Operating Reserve, i.e. Accumulated surplus as at end of the 2011/12 school year in (1) above <i>minus</i> Designated reserves in (4), (5), (6) and (7) below (\$88m – \$2m – \$1m – \$5m – \$10m):	\$70 million
4	Designated Reserve – (i) Fee Remission/Scholarship Reserve:	\$2 million
5	Designated Reserve – (ii) Long Service Payment Reserve:	\$1 million
6	Designated Reserve – (iii) Reserve for Donations with Specific Purposes:	\$5 million
7	Designated Reserve – (iv) Reserve for Construction, Maintenance and Upgrading of Above-standard Facilities:	\$10 million

C. “Excess” Reserve that can be Grandfathered

The amount that the school may apply for grandfathering is equal to the funds in the operating reserve in excess of the reserve ceiling, i.e. \$70 million *minus* \$60 million = \$10 million.

Example 2: WITH Net Book Value of Additional School Buildings Financed by Non-government Funds in the Operating Reserve

A. Accumulated Surplus and Annual Expenditure in the 2011/12 School Year

1	Accumulated surplus as at end of the 2011/12 school year:	\$129* million
2	Annual expenditure of the 2011/12 school year, i.e. reserve ceiling:	\$60 million

* Including the net book value of additional school buildings of \$30 million.

B. Setting Up of the Operating Reserve and Designated Reserves

3	Operating Reserve, i.e. Accumulated surplus as at end of the 2011/12 school year in (1) above <i>minus</i> Designated reserves in (4), (5), (6) and (7) below (\$129m – \$2m – \$1m – \$5m – \$10m):	\$111# million
4	Designated Reserve – (i) Fee Remission/Scholarship Reserve:	\$2 million
5	Designated Reserve – (ii) Long Service Payment Reserve:	\$1 million
6	Designated Reserve – (iii) Reserve for Donations with Specific Purposes:	\$5 million
7	Designated Reserve – (iv) Reserve for Construction, Maintenance and Upgrading of Above-standard Facilities:	\$10 million

Including the net book value of additional school buildings of \$30 million. The operating reserve used for calculation of the grandfathered reserve is therefore equal to \$81 million, i.e. \$111 million *minus* \$30 million.

C. “Excess” Reserve that can be Grandfathered

The amount that the school may apply for grandfathering is equal to the funds in the operating reserve (excluding the net book value of additional school buildings within the school premises) in excess of the reserve ceiling, i.e. \$81 million *minus* \$60 million = \$21 million.

29 August 2012

Education Bureau Circular No. 17/2012

Use of Government and Non-government Funds in Direct Subsidy Scheme (DSS) Schools

[Note: This circular should be read by –

- (a) Supervisors and Heads of Direct Subsidy Scheme Schools – for action; and
- (b) Heads of Sections – for information.]

SUMMARY

This circular recapitulates the prevailing rules and regulations as well as guidelines on the proper use of government and non-government funds in DSS schools, and sets out updated requirements for investment, purchase of properties and disclosure of financial information by DSS schools as recommended by the Working Group on DSS¹ (Working Group). This circular supersedes Education Bureau (EDB) Circular No. 4/2010 on *Use of Government Funds in Direct Subsidy Scheme (DSS) Schools* dated 29 April 2010 and EDB Circular No. 12/2010 on *Use of Non-government Funds in Direct Subsidy Scheme (DSS) Schools* dated 5 November 2010.

DETAILS

Fundamental Principles

2. Proper use of funding is fundamental and conducive to school effectiveness, credibility and viability of school operation. As publicly funded schools that may also collect school fees and have flexibility in the use of funds, DSS schools are accountable to the public and their stakeholders, including parents, for the use of resources on providing quality education. DSS schools are required to exercise their professional judgement to deploy the government and non-government funds flexibly and diligently for educational and school needs in

¹ In response to the recommendations in the Director of Audit's Report No.55 by the Audit Commission and the Public Accounts Committee Report No.55 by the Public Accounts Committee of the Legislative Council about DSS schools, the EDB set up the Working Group on DSS in February 2011 to review the administration of the DSS as well as the governance and administration systems of DSS schools. The Working Group submitted its recommendations to the Secretary for Education in December 2011, and the Secretary for Education accepted all the recommendations on 17 February 2012.

the best interest of their students. They should also ensure that the use of government and non-government funds is justified, publicly defensible, and in compliance with the Education Ordinance, the Education Regulations, the School Sponsoring Body (SSB) and School Management Committee (SMC)/Incorporated Management Committees (IMC) Service Agreements signed between the schools and the EDB where applicable, other relevant legislations and such other requirements as specified from time to time by the EDB.

Governance and Internal Control

3. Attaining high standards of corporate governance is a prerequisite for effective financial management in schools. To this end, DSS schools are required to strengthen their governance structure by including all key stakeholders as members of the SMC/IMC, to have sound financial planning and good budgeting, and to put in place a proper internal control and reporting mechanism with rigorous checks and balances in order to ensure that the government and non-government funds are used in a prudent, cost-effective, timely and value-for-money manner. For establishing a good governance structure with effective internal control measures, DSS schools are reminded to implement diligently the measures as set out in the *EDB Circular No. 7/2012 on Improvement Measures to Strengthen the Governance and Internal Control of Direct Subsidy Scheme (DSS) Schools*.

Handling of Conflict of Interest

4. To avoid any actual or perceived conflict of interest, DSS schools have to draw up guidelines on declaration of conflict of interest. Specifically, members of the SMC/IMC and the schools should be required to report any situations where they or their immediate family or personal friends have an interest, financial or otherwise, in any matter under consideration by their schools or in any company or organisation which has or is likely to have business dealings with the schools. DSS schools are required to properly record any declarations (with the use of a standard form) or disclosures made and necessary action taken to avoid any actual or perceived conflict of interest. More details are at Annex 1.

Staff Recruitment, Remuneration and Promotion

5. DSS schools are required to draw up policies on various staff administrative matters including staff recruitment, remuneration, appraisal, promotion and disciplinary procedures, which have to be endorsed by the SMC/IMC and properly documented. In this regard, DSS schools are strongly advised to refer to the “*Recommendations on Administration of Teaching Staff in Schools under the DSS from Independent Commission Against Corruption (ICAC)*” and “*Best Practice Checklist: Governance and Internal Control in Schools*” issued by the ICAC.

6. As staff remuneration constitutes a major part of school expenses, DSS

schools are required to put in place a proper and transparent mechanism to determine remuneration packages for individual staff to ensure that the packages are fair and justifiable. The criteria such as qualifications, experience, performance and expertise, and approving authority for determining the remuneration package of an appointee and any subsequent salary adjustment have to be clearly set out. In addition, comparison with the remuneration of civil servants at comparable ranks should be made when determining the appropriateness of remuneration packages for senior positions. The “modest and conservative” principle should also be observed at all times.

Procurement

7. While DSS schools are given flexibility in formulating their own procurement policy, they should follow as far as possible the guidelines on procurement procedures for aided schools as set out in the prevailing **EDB circular on Tendering and Purchasing Procedures in Aided Schools**. Any variation from the EDB’s guidelines has to be approved by the SMC/IMC and documented for information of stakeholders. They should also refer to the guidelines and procedures as laid down in the “*Best Practice Checklist: Governance and Internal Control in Schools*” issued by the ICAC in drawing up their procurement policy.

8. When handling procurement of services and goods, DSS schools have to observe the principles of openness, fairness and competitiveness. The staff involved in procurement have to be reminded to adhere to the requirement on declaration of conflict of interest and procurement procedures on a regular basis. To mitigate the risks of abuse and ensure that the procurement activities are conducted in a fair and competitive manner, DSS schools are required to:

- (a) maintain a shortlist of suppliers or contractors approved by a panel for frequently purchased items or services, and select a sufficient number (or invite all) from the list for invitation to bid on a fair share basis, in addition to any nominations from the users;
- (b) for ad hoc purchases, compile a shortlist of suppliers based on predetermined criteria and invite the shortlisted suppliers to bid;
- (c) take measures to prevent leakage of or tampering with quotation information (e.g. assign a staff member to keep all quotations/tenders intact in a secure place before opening which should be witnessed by another staff member, or receive electronic quotations through a designated mailbox with restricted access and only to be opened after the closing time); and
- (d) draw up predetermined assessment criteria for the award of service and works contracts if price is not the only consideration, including the weighting to be attached to each assessment aspect, and form an evaluation panel comprising at least two staff members to conduct the assessment.

9. As subvented organisations, DSS schools are required to keep proper administrative and financial records and provide them for the examination of the EDB and the Director of Audit when required.

Government Funds

Sources of Government Funds

10. The government funds mainly come from a recurrent per capita government subsidy based on the average unit cost of an aided school place. A DSS school will continue to receive full subsidy from the Government until its fee level reaches $2\frac{1}{3}$ (two and one-third) of the average unit cost of an aided school place. Beyond this level, the Government will not provide any recurrent subsidy. Other than that, grants not subsumed into the DSS subsidy are also payable to eligible DSS schools separately.

Use of Government Funds

11. Only approved expenditure items of educational nature as stipulated at Annex 2 can be charged against the government fund account. Particular attention should be paid to expenditure on the high side to ensure that the expenditure is justifiable. Disallowable expenditure items, including but not limited to fringe benefits for staff not included in the remuneration packages, expenses arising from schools' negligence, donations, losses of investment and self-financed building project, should not be charged against the government fund account. As government subsidy is provided on the basis of the average unit cost of an aided school place, to ensure that quality education is provided, we do not see strong grounds for DSS schools to accumulate large surplus of government funds. If situation warrants, the EDB will require DSS schools that have a large surplus of government funds to provide explanations and take follow up action as appropriate.

Non-Government Funds

Sources of Non-Government Funds

(i) School Fees and Other Collections

12. DSS schools are required to comply with the relevant Education Regulations and circulars issued by the EDB regarding school fees and other collections. Prior approval must be sought from the EDB for any fee adjustment or new charges. Unless with the EDB's prior approval, DSS schools shall not charge or accept fees other than the inclusive fees. DSS schools are required to formulate a policy and an appropriate mechanism to examine and review their level of school fees and other collections as well as to communicate well with parents on the matters. When adjusting the level of school fees and other collections, schools should take into consideration the affordability of their

students and make efforts to address any genuine hardship possibly caused to their existing students. The financial projections made by DSS schools in their applications for school fee increases should also be justified and reasonable.

(ii) Trading Operations

13. DSS schools are required to follow the principles as set out in the prevailing EDB circular on *Trading Operations in Schools* in operating trading activities. Schools' attention is drawn in particular to the requirement that the profit from the sale of items should not exceed a maximum of 15% of the cost price, except for sale of textbooks which should not generate any profit.

(iii) Hire of Accommodation

14. In hiring out their premises to support meaningful events, DSS schools have to ensure that the hire of accommodation does not affect school operation and undermine their educational services for students. Schools should formulate their school-based policy on hire of accommodation with reference to the prevailing EDB circular on *Hire of Accommodation in Aided Schools*. The hire charges levied from accommodation and relevant overhead expenses have to be credited to the non-government fund account.

(iv) Fund-raising Activities

15. DSS schools have to ensure that fund-raising activities held are lawful and in compliance with the requirements stipulated by the EDB and/or other government departments. A school-based fund-raising policy with proper procedural guidelines should be formulated for compliance of their staff. In this regard, DSS schools should refer to the guidelines on conducting fund-raising activities uploaded onto the EDB's Homepage via the path below:

EDB Homepage > School Administration > Administration > Fund-raising Activities in Schools

16. DSS schools' attention is drawn in particular to the following requirements:

- (a) For fund-raising held for organisations which are not approved charitable institutions, DSS schools have to ensure that such organisations have got the EDB's approval; and
- (b) DSS schools should prepare a financial statement for each fund-raising activity conducted and display the statement for a reasonable period of time on the schools' notice board for the information of teachers, parents and students, which should also be retained for audit purposes.

(v) Donations and Sponsorships

17. DSS schools are required to formulate their own policy on acceptance of donations and to comply with the principles of acceptance of donations as promulgated in the prevailing EDB circular on *Acceptance of Advantages and Donations by Schools and their Staff*. Schools' attention is drawn in particular to the following:

- (a) all donations to the school should be expended on the school and for educational purposes only;
- (b) the acceptance of donations by schools should be approved by the SMC/IMC;
- (c) a register of all donations received should be maintained; and
- (d) in no circumstances may a school suggest to the suppliers and contractors that the school will provide an advantage in return for their donations. Donations from suppliers and contractors should only be accepted in exceptional circumstances with compelling reasons, and with proper documentation as well as approval by the SMC/IMC in advance.

(vi) Loans from Other Parties

18. As a general rule, DSS schools should not obtain any loans from other parties including their SSB. Only under very exceptional circumstances should DSS schools consider obtaining loans from other parties including their SSB. The EDB's prior approval has to be sought for any proposed loans. For approved loans, repayments including related charges should be charged to the non-government funds. Terms and conditions of approved loans, including repayment schedule, interest and other charges, should be clearly set out in the loan agreements.

Use of Non-government Funds

19. As non-government funds should be used for purposes directly benefiting the students of the schools, under no circumstances should DSS schools distribute surplus to the SSB or third parties in any forms, including donations or loans to the SSB or any third parties.

(i) Above-standard Educational Services and Facilities

20. DSS schools may use non-government funds to provide additional and high quality support services for students, such as organising more student enrichment programmes, designing more diversified curricula to develop the multiple intelligence of students and to cater for their needs, etc.

21. DSS schools may also use non-government funds to finance above-

standard facilities² for the purpose of enhancing the quality of education having regard to the benefits for the students, impact on the school's financial situation and key stakeholders' concerns. Virement of surplus of government funds, if any, to finance any above-standard projects/facilities/services is not allowed.

22. As no additional recurrent or non-recurrent government funds are provided for the above-standard services and facilities, DSS schools with genuine needs for constructing, maintaining or upgrading above-standard facilities, will be allowed to set up a reserve for the purpose. In this connection, DSS schools are required to follow the arrangements for setting up the reserve and setting aside school fee income for the reserve as set out in the [EDB Circular No. 16/2012 on Delineation of Reserves and Reserve Ceiling for the Operating Reserve of Direct Subsidy Scheme \(DSS\) Schools](#).

(ii) Investment

23. As set out in the existing guidelines³, investment by DSS schools is not recommended. Nevertheless, DSS schools may still do so should they have compelling and well-justified reasons. To ensure that their financial situation remains sound and healthy after the investment, DSS schools will have to observe closely the following guidelines when making any investment **as from the 2012/13 school year**:

- (a) DSS schools are not allowed to use the funds in the operating reserve or the fee remission/scholarship reserve for investment;
- (b) DSS schools have to 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, the reserve for donations with specific purposes and the reserve for construction, maintenance and upgrading of above-standard facilities; and
- (d) DSS schools are only allowed to invest in (i) Hong Kong (HK) dollar bonds; or (ii) HK dollar certificates of deposits according to the prescribed criteria/conditions:

Type of Investment	Investment Criteria/Conditions
HK dollar bonds or certificates of deposits: ✧ short to medium term with a maturity period of one to five years.	✧ 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

² Taking reference to the standard provisions of the aided schools, any facilities which are normally not provided in an aided school are treated as above-standard facilities, e.g. swimming pool, school bus, etc.

³ Details of the existing guidelines on investment are set out in the EDB Circular No. 2/2003 on *The Choice of Bank Counterparties in the Investment of Public Assets* dated 1 March 2003.

	<p>Corporation.</p> <p>✧ The bank must be licensed under the Banking Ordinance, Cap. 155.</p>
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24. DSS schools should pay special attention to the liquidity constraints of the certificates of deposits and corporate bonds in the secondary markets and are advised to make allowance for contingencies in projecting the use of their designated reserves.

25. Existing investment products held by DSS schools which do not comply with the new investment guidelines above should be disposed of in a manner most beneficial to the schools. Realised loss, which is computed on a yearly basis irrespective of the type of investment, must not be charged to any of the school's accounts.

26. DSS schools are also reminded to refer to other requirements in respect of the choice of banks and investment as detailed in the prevailing EDB circular on *The Choice of Bank Counterparties in the Investment of Public Assets*.

(iii) Purchase of Properties

27. All along, purchase of properties by DSS schools is discouraged as it carries substantial financial implications and the risk of financial loss. Nevertheless, if DSS schools have compelling and well-justified reasons for purchasing properties by using their non-government funds, they may still do so. To ensure their financial stability after the purchase of properties, DSS schools will have to observe the following two new requirements on top of the existing guidelines **as from the 2012/13 school year**:

- (a) DSS schools are required to keep at least an amount equivalent to six months' operating expenditure in cash after the purchase of properties; and
- (b) DSS schools are not allowed to purchase properties through mortgages or any other borrowing arrangements.

28. In this connection, the existing guidelines on the purchase of properties have been refined to incorporate the two new requirements in paragraph 27 above. The revised guidelines are at Annex 3. DSS schools are reminded to strictly follow the guidelines to ensure that decisions of property acquisition are well thought-through.

(iv) Providing Loans / Making Donations to Other Parties

29. DSS schools should always put students' interest on top priority in the use of their resources. They should also ensure that all the expenditures from non-government funds are necessary for educational or school purposes. To this end,

DSS schools should not provide a loan to any other party in any circumstances. In addition, DSS schools are reminded not to make donations to any other party. If there are strong justifications relating to the educational needs of their own students, such intended donation should be deliberated and approved by the SMC/IMC with proper documentation and disclosure of information to the stakeholders including all the parents.

(v) Expenses on Meals and Presents for Staff

30. Expenditure on items such as meal and presents and other fringe benefits for staff is sensitive in the eyes of the public. DSS schools are advised to adopt a conservative and modest approach to such matters. DSS schools need to ensure that such expenses fall within the scope of expenses of non-government funds as set by the SMC/IMC. Moreover, the SMC/IMC should approve such expenses according to the needs and policy priorities of the schools. The SMC/IMC should also consider setting limit of such expenses per occasion and/or per head.

31. For reference of the SMC/IMC, a list highlighting the tips on proper handling and use of non-government funds is prepared and has been uploaded onto the EDB website at the address below:

<http://www.edb.gov.hk/index.aspx?nodeid=1475&langno=1>

Enhancing the Transparency of Schools' Financial Management

32. At present, under the School Development and Accountability Framework, DSS schools are required to upload their School Development Plan, Annual School Plan and School Report (which include a financial summary) onto their websites for public reference. 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 will have to report the following financial information in the School Report **as from the 2012/13 school year**:

- (a) 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; and
- (b) the cumulative operating reserve in terms of equivalent months of operating expenditure.

33. In this connection, the EDB has developed a new template for use by DSS schools. Given that audited accounts of DSS schools for a certain school year are only available six months after the end of the school year, i.e. by end-February of the following school year, while schools are required to upload the School Report onto the schools' websites three months after the end of a school year, i.e. by end-November of the following school year, under the School Development and Accountability Framework, the financial information for inclusion in the

School Report should be that of the previous school year. For example, in the School Report for the 2012/13 school year, the financial information should be compiled based on schools' audited accounts for the 2011/12 school year. The template for enhancing the transparency of schools' financial management has been uploaded to the EDB website at the address below:

EDB Homepage > Kindergarten, Primary and Secondary Education > Quality Assurance for Schools > School Development and Accountability (SDA) > School Self Evaluation > Template: School Development Plan, Annual School plan and School Report

Accounting Arrangements

34. DSS schools are required to keep proper accounts in respect of all their income and expenditure. To safeguard the proper use of public funds, proper accounting arrangements should be taken to avoid cross-subsidisation of any self-financing activities without government subventions. For any DSS schools that are approved to operate private classes on individual merits, they should keep separate accounts for their private classes and ensure that there is no cross-subsidisation of the private classes by the DSS classes in money or in kind. Similarly, for any DSS schools that have admitted non-local students, they should collect from the non-local students an amount of school fees not less than the DSS unit subsidy plus the approved school fees for local students so that cross-subsidisation could be avoided. Details of other accounting arrangements that schools are required to comply with are at [Annex 4](#).

Audit Inspections

35. If anomalies are found during audit inspections conducted by the EDB, the schools concerned should step up their efforts to rectify the situation. Actions will be taken by the EDB if DSS schools are found to have distributed surplus of government funds/non-government funds or have charged disallowable expenditure against the government funds. If malpractices continue, it may lead to a resultant loss of DSS status.

Making Referral Whenever Necessary

36. When there is suspicion of corruption or other criminal offence, the SMC/IMC should refer the case to relevant law enforcement agencies for further investigation.

ENQUIRY

37. For enquiries, please contact the respective Senior School Development Officers.

Miss Alice YU
for Permanent Secretary for Education

Guidelines on Handling Conflict of Interest

1. To maintain public confidence in the integrity of SMC/IMC members and school staff, the SMC/IMC should put in place proper procedures to require the school personnel, including school managers and staff, to declare any conflict of interest that might influence, or appear to influence, his / her judgement in the performance of his / her duties.
2. When executing their respective roles and functions in the school, SMC/IMC members and school staff should be advised to:
 - refrain from handling school matters or making a decision or taking part in making a decision in matters which may have conflict with their private interest;
 - refrain from acquiring any investment or financial interests which may lead to conflict of interest with their roles and functions in the school;
 - decline to provide assistance, advice or information on school matters to their relatives, friends, or any club / organisation of which they are members, when this may result in the recipients having an unfair advantage over other persons / organisations; and
 - familiarise themselves with the rules and guidelines on conflict of interest.
3. A declaration of conflict or perceived conflict of interest should be made in writing, preferably on a standard form (sample of standard form attached), or recorded in the notes of a meeting as appropriate. Records of such declarations should be duly kept.
4. In the daily operation, as circumstances or events warrant, the persons concerned should draw other members' attention to their perceived conflict of interest. When such a situation arises, the SMC/IMC, or the school head as appropriate, should decide whether the person disclosing an interest shall be required to abstain from the duty assigned, or to abstain from the deliberation and decision on the subject. If it is decided the person concerned should continue to discharge the duties, the considerations should be properly documented and, as and when necessary, there should be sufficient monitoring by senior staff or a second party to ensure impartiality.

Examples of conflict of interest:

5. A member of the school personnel taking part in the selection of textbooks or reference books which are written or edited by his / her spouse, family,

relatives or personal friends, or published by a company in which he / she or his / her spouse, family, relatives or personal friends have a financial interest.

6. A member of the school personnel taking part in the vetting / approving of tenders from a number of companies, one of which is operated by his / her spouse, family, relatives or personal friends or in which he / she or any such person has a financial interest, e.g. in the selection of textbook supplier, school uniform supplier, furniture and equipment supplier, school bus operator and tuckshop operator.
7. A member of a selection panel considering the recruitment, regrading, acting appointment and promotion of staff, and a candidate being his / her family member, relative or personal friend.
8. A member of a selection panel who applies for the post himself or any other post being advertised at the same time.
9. A member of the school personnel investigating a complaint and the persons involved being his / her family member, relatives or personal friends.

Sample Form for Declaration of Conflict of Interest

Part A - Declaration of Interest ¹

To: *Supervisor / Chairman of the *School Management Committee / Incorporated Management Committee

I understand that if I, my family members and close relatives and personal friends have any direct or indirect interest in any *person / company which has business dealings with the school, I shall make a declaration to the *School Management Committee / Incorporated Management Committee.

I would like to declare the following *existing / potential conflict of interest situation arising from the discharge of my duties concerning the operation of the school or as members of the *School Management Committee / Incorporated Management Committee:-

a) *Persons / companies with *whom / which I have official dealings *and / or private interests:

b) Brief description of my duties which involve the *persons / companies mentioned in item (a) above:

Signature: _____
Position and Name: _____
Date: _____

Part B – Record of Resolution of the School Management Committee / Incorporated Management Committee

With respect to the above declaration,

(name of the person making the declaration) should refrain from performing or getting involved in performing the *work / duty, as described in Part A, which may give rise to a conflict.

(name of the person making the declaration) may continue to handle the *work / duty as described in Part A, provided that there is no change in the information declared above.

Others (please specify)

Signature: _____
(*Supervisor / Chairman of the *SMC/IMC)²

Date of Meeting / Date: _____

(*Delete as appropriate)

¹ In the daily operation, as circumstances or events warrant, the persons concerned should draw other members' attention to their perceived conflict of interest. When such a situation arises, the SMC/IMC, or the school head as appropriate, should decide whether the person disclosing an interest shall be required to abstain from the duty assigned, or to abstain from the deliberation and decision on the subject.

² For declarations made by school staff (excluding school principal) in respect of operation matters such as tendering and purchasing, staff recruitment, the SMC/IMC may delegate the approving authority to the school principal.

**List of Approved Items of Expenditure for the
Direct Subsidy Scheme (DSS) Government Subsidy¹**

Advertising
Audit fee
Bank charges
Bank interest and overdraft interest
Celebrations and entertainment
Cleaning materials
Consumable stores
Curriculum development
Depreciation
Expenditure on staff training
Expenditure on supplementary teaching staff
Extra-curricular activities
First-aid facilities
Fuel, light and power
Government rates and rent
Insurance for fire, theft, public liability and employee compensation
Library books for students
Long service payment/severance pay (in accordance with the Employment Ordinance)
Newspaper and magazines
Non-teaching staff salaries
Postage and stamp duty
Printing and stationery
Prizes
Professional fees for essential professional advice of a legal, architectural, or similar nature
Provident fund for teaching and non-teaching staff
Repairs and maintenance
Retirement or death benefits for staff not eligible for any other scheme, provided that such benefits do not exceed those available to similar staff eligible for another scheme, such as provident fund
Sports
Teachers' textbooks, maps, etc.
Teaching staff salaries
Telephones
Transport and travelling expenses wholly incurred on school business, excluding travel between home and school

¹ Not for the depreciation, maintenance and running cost of above-standard facilities such as swimming pool, school bus, etc.

Travelling allowances, meals or light refreshments for occasional guest speakers
Water charges
Wreaths, flower-baskets and similar tributes on behalf of the school
Miscellaneous items for educational purposes

[Note: Repayment of loan and interest thereon with previous special approval from the EDB can also be charged to government funds.]

Guidelines on Purchase of Properties by Using Non-government Funds

Purchase of properties by using non-government funds in general is discouraged as it carries substantial financial implications and the risk of financial loss. Charging any loss to the school's accounts is not allowed. This is because the income of a school must be kept intact and utilised fully for educational purposes and school facilities. Accordingly, the liability for any financial loss arising from the purchase of properties shall strictly fall on the school management responsible for incurring such a loss and shall not be allowed to be recovered as a charge against the government or non-government funds of the school. Should a DSS school have compelling and well-justified reasons for purchasing properties and demonstrate suffice financial viability, the School Management Committee (SMC) ¹/Incorporated Management Committee (IMC) should devise a school-based mechanism for regulating the practice by following the principles and procedures set out below:

A. Basic Principles and Requirements

1. Prudence

- a. DSS schools should only purchase properties for compelling and well-justified reasons (e.g. for accommodating expatriate teachers or providing accommodation for school staff in lieu of housing allowances, etc.) and with the prior approval of their SSB as well as their SMC/IMC. Purchase of properties for speculative purpose is disapproved. The SMC/IMC should fully assess and deliberate on the impact of the purchase of properties on school's development and finance in a prudent manner with proper documentation.
- b. DSS schools are required to keep at least an amount equivalent to six months' operating expenditure in cash after the purchase of properties.
- c. DSS schools are not allowed to purchase properties through mortgages or any other borrowing arrangements².

2. Genuine Necessity

The SMC/IMC should ensure that the purchase of properties is for meeting

¹ As DSS schools managed by management committee formed by school managers registered under the Education Ordinance, Cap. 279 do not have a separate legal personality to own property, they should not purchase properties. These guidelines are only applicable to DSS schools managed by IMC established under the Education Ordinance, Cap. 279 and SMC established under its own ordinance or the Companies Ordinance, Cap. 32.

² If the properties purchased before the issuance of this circular involve borrowing or mortgage loan, the school should ensure that the loan repayments will not bring any negative impact on the school's financial situation.

genuine educational and school needs in the best interest of the students.

3. Involvement of Key Stakeholders

To enhance school's accountability and transparency, the SMC/IMC should put in place a proper consultative and reporting mechanism to engage key stakeholders, including parents and alumni where appropriate, in making the decision to purchase or sell properties. Details of the properties, financial situations of the school before and after the purchase/sale of properties, and the risk that the value of the properties may be worth substantially less than the original amount the school has invested should be made known to all stakeholders.

4. Value for Money

The SMC/IMC should ensure that properties are purchased in a cost-effective and value-for-money manner to the benefit of the students.

5. Sustainability of School Development

a. Before the purchase, the school should critically assess and evaluate its short to long term financial position and prepare cashflow forecast for stakeholders' consideration.

b. In no circumstances should the purchase or sale of properties lead to an increase of school fees.

6. Transparency

DSS schools should make transparent the decisions to purchase or sell properties and details of the properties purchased for the information of key stakeholders regularly as far as possible. There must be proper declaration of interest among the SMC/IMC members throughout all processes.

B. Procedures

1. Formulation of Policy

a. The SMC/IMC should formulate a school-based policy on purchase of properties in accordance with the school vision and mission and the general educational policies and principles set by the SSB. The policy should set out the principles, considerations including risk assessment and procedures to be observed in the purchase of properties, and the management and sale of properties thereafter.

b. The policy should also include a contingency plan (e.g. selling the properties) for dealing with situations such as stringent financial situations, low utilisation rate of the properties or other situations which warrant selling of the properties.

- c. The policy has to be approved by the SSB as well as the SMC/IMC with proper deliberation and documentation.

2. Implementation of Policy

Purchase or Sale of Properties

- a. The SMC/IMC should deliberate on the purchase or sale of properties in accordance with the principles, considerations and procedures as set out in the school-based policy. The purchase or sale of the properties has to be approved by the SSB and the SMC/IMC with proper documentation.
- b. Before endorsement, the SMC/IMC should formally consult stakeholders, parents in particular, about the purchase or sale of the properties and address their concerns. Details of the properties including usage of the properties, source of funding, cost of acquisition/selling price and financial situations of the school before and after the purchase/sale of properties should be made known to all the stakeholders. The SMC/IMC should ensure that the purchase or sale of the properties is justified and publicly defensible.
- c. Members of the SMC/IMC and the school should be required to report any situations where they or their immediate family or personal friends have an interest, financial or otherwise, in the purchase of the properties. The SMC/IMC should properly record any declarations (with the use of a standard form) or disclosures made and necessary action taken to avoid any actual or perceived conflict of interest. The SMC/IMC should ensure that the purchase/sale is at arm's length transaction.
- d. The legal and beneficial ownership of any property purchased must vest in the SMC/IMC of the school. Under no circumstances should the property be legally or beneficially held by or in the name of a natural person or persons.
- e. When there is suspicion of corruption or other criminal offence, the SMC/IMC should refer the case to relevant law enforcement agencies for further investigation.

Management of Properties

- f. The SMC/IMC should ensure that the contingency plan as set out in the school-based policy is implemented at all times and monitor its proper implementation.
- g. The SMC/IMC should conduct continuous assessment on the cost-effectiveness of the properties purchased, for instance, whether the utilisation rate of the properties is well justified.
- h. There should be no cross-subsidisation from government subsidy on the

properties purchased. Charging recurrent expenditure of the properties, including government rent and rates, utility charges, revaluation charge, depreciation charge, etc. as well as its non-recurrent expenditure to government funds is not allowed.

C. Accounting Arrangement

1. Schools are required to keep additional subsidiary ledgers to record detailed transactions of each property and the income and expenditure derived from each property. The information includes date of purchase, cost of acquisition, annual depreciation, revaluation, disposal, income and expenses, etc. The gain or loss on revaluation of the property, if any, should be reflected in the school's non-government fund account³.
2. In addition to the disclosure requirements as required by the relevant Hong Kong Accounting Standards, the details of each property purchased including date of purchase/sale, usage of the property, source of funding used (exact items under non-government funds), cost of acquisition and subsequent changes in carrying amount (i.e. revaluation and depreciation) should also be disclosed in the audited accounts.
3. The gains derived from the sale of properties should be reflected in the school's non-government fund account.
4. The loss arising from the sale of properties should not be charged to any of the school's accounts and should not be borne by the school.

Note:

In handling donation designated by the donor for purchase of properties, the above guidelines should still be followed in principle.

³ The revaluation gain/loss is an unrealised gain/loss as the gain/loss will only be realised after sale of the property. Hence, the unrealised revaluation gain/loss would not be considered in the assessment of the school's financial performance during the fee revision exercise.

Accounting Arrangements

1. Separate bank accounts for government and non-government funds have to be maintained in the name of the school.
2. Only approved expenditure under the ambits of government funds should be paid from the government fund accounts. The non-government fund accounts should be used for meeting educational and school needs.
3. Accounts in respect of transactions (income and expenditure) relating to government funds, e.g. interests derived from government funds, and transactions (income and expenditure) relating to non-government funds, e.g. proceeds arising from trading operations, should be recorded and kept separately.
4. While DSS schools enjoy great flexibility in charging their expenditure to either government or non-government funds subject to the nature and requirements of different subsidies/grants, the year-end balances of government funds should be either a surplus or zero. Any spending in excess of the government funds should be covered by the non-government funds.
5. Bank accounts (include Fixed/Time Deposits and cheques) should be operated by jointly authorised signatories. Cheques should be jointly signed by any two of the registered managers designated for this purpose. In addition, the issue whether the supervisor would be one of the authorised signatories should be discussed and decided by the SMC/IMC.
6. An updated certified bank mandate of the authorised bank signatories should be kept in schools. Any changes to bank signatories should be promptly updated in the bank mandate.
7. All expenses should be properly authorised and supported by vouchers and original invoices before payments are made. The preparation and authorisation of payment vouchers should not be conducted by the same person.
8. DSS schools should ensure that there are adequate and appropriate controls governing the retention, storage and destruction of accounting records. Schools should keep records of a permanent nature, e.g. annual accounts, inventories/fixed asset register, records of government recurrent and non-recurrent subsidies, records in connection with donations, etc. The following records may be destroyed after a certain period of retention as specified below:
 - (a) Minimum period of retention – 7 years

- (i) Books of accounts, i.e. cash books, ledgers, etc.
 - (ii) All types of vouchers, bank statements
- (b) Minimum period of retention – 2 years
 - (i) Fees receipts/school attendance registers
 - (ii) Register of hire of school accommodation
- 9. DSS schools should keep a Fixed Assets Register to record the existing items of fixed assets under schools' control, showing separately where the fixed assets are purchased through government or non-government funds. The register should clearly state the description of items, date of purchase, quantity, location, date and reasons of write-off, the approval signature of write off, etc.
- 10. Proper school-based arrangements for the safe custody of school assets, cash and other valuables under schools' control are also required.
- 11. DSS schools should conduct physical stocktaking of assets on a regular basis (at least once every three years). For valuable items such as notebook computers, DSS schools should conduct physical stocktaking on a yearly basis. Any discrepancies found should be investigated and reported to the SMC/IMC.



中華人民共和國香港特別行政區政府總部教育局
Education Bureau
Government Secretariat, The Government of the Hong Kong Special Administrative Region
The People's Republic of China
香港添馬添美道 2 號政府總部東翼 5 樓學校行政第一組
School Administration 1 Section, 5/F., East Wing, Central Government Offices, 2 Tim Mei Avenue, Tamar, HK

本局檔號 Our Ref.: (10) in EDB(SA1)/DSS/POL/3/1(IV)

電話 Telephone: 3509 7536

來函檔號 Your Ref.:

傳真 Fax Line: 2572 5402

29 November 2019

To: Supervisors/Heads of Direct Subsidy Scheme (DSS) Secondary Schools

Dear Sir/Madam,

Operation of Non-local Curriculum in DSS Secondary Schools

This letter aims to reiterate the guiding principles as promulgated in the circular letters issued by the Education Bureau (EDB) to supervisors / heads of DSS secondary schools on 1 March 2007 and 25 May 2011 and provide further guidelines on the operation of non-local curriculum in DSS secondary schools.

DSS schools as local schools

DSS schools receive recurrent subsidy from the Government, and their operation including curriculum design is therefore subject to the requirements as set out by the Government. Under the existing policy, schools admitted into the DSS have to be operated as local schools, and are required to offer principally the local curriculum targeted at local students and prepare them for local examination(s) and articulation to local universities / tertiary institutions.

Levels and maximum number of students allowed to take the non-local curriculum

On top of the local curriculum, EDB has no objection to DSS schools to offer a small stream of non-local curriculum in parallel with the local curriculum at the senior forms, viz. Secondary 5 (S5) and Secondary 6 (S6), as an additional curriculum choice for students. Specifically, the maximum number of students taking non-local curriculum should not exceed one third of the students enrolled at each of the S5 and S6 levels. The cohort of students eligible for DSS subsidy at S5 level in the September headcount can be used as the basis for determining the maximum number of eligible places in the non-local curriculum programme for DSS subsidy throughout their two years of study in the same programme provided that the school does not subsequently admit outside students to the non-local curriculum class(es) concerned. Besides, having regard to the policy that DSS schools, positioned as local schools, should offer principally the local curriculum, for headcount purposes, the number of places eligible for DSS subsidy in the non-local curriculum stream should be less than the number of students taking the local curriculum in the same cohort.

Chinese Language as a core subject in the non-local curriculum

Chinese Language should be offered as a core language subject to be in line with the biliterate and trilingual language policy. Chinese Language should be one of the foundation subjects that are compulsory throughout the six years of secondary curriculum. As such,

- All students in DSS schools should take Chinese Language irrespective of students' ethnic origins¹;
- In special situations, schools may provide school-based Chinese Language programme² to cater for the specific educational needs of some of their students. Nonetheless, the total number of guided lesson hours of the school-based programme should be comparable to, or at least not much smaller than, that specified for the Chinese Language subject in the non-local or local curriculum; and
- Students taking Chinese Language under the respective non-local curriculum should suitably be exposed to Chinese Literature, classics, culture, moral and

¹ Owing to reasons acceptable to individual schools, students may choose not to sit for the respective public examination after pursuing the Chinese Language course.

² Schools can make reference to the Chinese Language syllabus of the local and /or other non-local curriculum.

values. Enhancement modules could be offered to the more able students taking the non-local curriculum.

Types of non-local curriculum to be offered

The non-local curriculum to be operated should prepare students for international examination / assessment, and articulation to local and overseas universities / tertiary institutions and / or for career development. The school which applies to offer a non-local curriculum other than International Baccalaureate Diploma Programme (IBDP) or General Certificate of Education Advanced Level (GCE A-Level) should provide evidence to show their meeting the following main criteria for approval:

- It should be a two-year non-local curriculum educational programme at S5 and S6 levels, primarily aim at 16 to 18 years old, to provide an alternative pathway for further studies other than the Hong Kong Diploma of Secondary Education Examination (HKDSE) programme;
- The non-local curriculum will prepare students for international examination / assessment, and facilitate their articulation to local and overseas universities / tertiary institutions; and
- The public examination / assessment results to be obtained under the non-local programmes are internationally recognized as equivalent to certain academic standard for admission to overseas universities / tertiary institutions worldwide and local universities / institutions (including UGC-funded universities), and / or for work in future.

Other points to note

DSS schools should take note of the following:

- Schools should enable students to explore their interests in the senior secondary curriculum at S4 and thus the non-local curriculum to be offered should be regarded as an additional choice only for S5 and S6 students;
- Before making application, schools should carefully assess their own readiness and capability in offering both local and non-local curricula at the same time to ensure that the quality of education service would not be undermined;

- No additional government subsidies or additional classes will be provided for offering the non-local curriculum; and schools should ensure that there is no cross-subsidization between the local curriculum and non-local curriculum. The operation of non-local curriculum should not impose undue pressure on school fees. The proposed school fee of the non-local curriculum stream should be reasonable in terms of long-term planning and sustainability. In this regard, schools should provide sound justifications on their financial situations for proposing school fees for students taking the local curriculum or non-local curriculum. School funds should be fairly distributed in the interest of all students in the school and the local curriculum should not be undermined;
- Students taking non-local curriculum are entitled to the DSS subsidy as long as they are local students as prescribed by the EDB. School fees from students taking local curriculum and students taking non-local curriculum will form the basis for the computation of the provision of school fee remission and scholarship. As such, students taking non-local curriculum are also entitled to school fee remission and scholarship;
- Parents should be fully briefed on the details of the non-local curriculum, including curriculum design, streaming arrangements, admission criteria to local universities / tertiary institutions, differentiated fees, etc. Schools should adequately address parents' possible concerns on the above;
- Formal approval can be granted only after schools have obtained authorization from the relevant awarding organization. For example, IBDP requires authorization from the International Baccalaureate Organization whereas GCE A-Level requires authorization from Edexcel International / Cambridge International Examinations; and
- Schools should be reminded not to stage publicity or commit students for admission to the non-local curriculum programme prior to receipt of formal approval from EDB for its operation.

DSS schools which intend to offer a non-local curriculum programme are required to submit their application to their respective Regional Education Office for consideration at least 18 months before the proposed effective date of operation of the programme.

Should you have any enquiry, please contact your respective Senior School Development Officer.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Amy Cheng', written in a cursive style.

(Ms Amy CHENG)
for Secretary for Education

c.c. Area CSDOs