

Report of the Working Group on Direct Subsidy Scheme

Executive Summary

Background

With a view to following up the conclusions and recommendations set out in Part 8 of the Report No. 55 of the Public Accounts Committee (PAC) of the Legislative Council, the Secretary for Education (SED) instructed in February 2011 that a Working Group (WG), chaired by the Permanent Secretary for Education and comprising six private sector members with expertise in corporate governance, financial and human resource management as well as four officers from the relevant Divisions of the Education Bureau (EDB), be set up to study and make recommendations to facilitate the continuous improvements to the administration of the Direct Subsidy Scheme (DSS) as well as the governance and administration systems of DSS schools. The sections to follow will set out the gist of the WG's deliberation and recommendations as well as the major considerations behind them.

Guiding Principles Adopted by the WG

2. In deference to the original policy objectives of the DSS, i.e. enhancing parental choice and enriching our education system through increasing the diversity in our school system, the WG has adopted the following guiding principles:

- (a) The EDB should maintain a proper balance between regulatory oversight of and flexibility for DSS schools;
- (b) The EDB's monitoring and oversight should be complemented by DSS schools' own governance and internal accountability;
- (c) The EDB should refrain from micro-managing DSS schools; and
- (d) DSS schools should be supported with proper training that facilitates their implementation of the improvement

measures.

Deliberations and Recommendations

3. The WG is keenly aware of the importance of engagement and objectivity to ensure that the recommendations are feasible and acceptable to both the DSS schools as well as the wider community. The importance of engaging and consulting the DSS schools and the different key stakeholders therein cannot be over-emphasized. Yet, the WG also realizes that their perspectives and inputs should form only part, but not the entirety, of its deliberation. Of no less importance are the expectations that parents and the community have of the EDB as the guardian of public interest in ensuring the sustainability, accountability and credibility of the DSS.

4. Prior to commencing its deliberation, the WG paid visits to a number of DSS schools. Its engagement with the DSS schools was conducted in an iterative manner. Instead of consulting the Hong Kong DSS Schools Council and DSS schools after all the recommendations have been made, the WG sought inputs from them as and when preliminary conclusions on certain key issues had been reached. This has helped the WG refine its deliberation along the way. By July 2011, the WG had formulated the skeleton of all key recommendations and since then, the WG has conducted a series of consultation sessions to gauge the views of different stakeholder groups of the DSS schools sector all the way up to a few days before Christmas 2011. The WG is satisfied that the recommendations have been as sensitive and empathetic to the concerns and interests of different stakeholder groups as possible while adhering to the guiding principles set out in paragraph 2 above.

5. The recommendations mainly cover the following five aspects:
- (a) Fee remission/scholarship schemes;
 - (b) Governance and internal control of DSS schools;
 - (c) Financial management of DSS schools;
 - (d) Training for school personnel of the DSS schools; and
 - (e) Measures to ensure compliance of requirements of the DSS

by schools.

Improvement Measures for the Fee Remission/Scholarship Schemes
(Chapter 3)

6. The WG fully shares the PAC's view that the DSS must not be a system closed to students from less advantaged socio-economic background and has studied suggestions on how this could be achieved¹. In identifying ways to achieve this, the WG feels that certain key features of the DSS must be acknowledged and these are:

- (a) The diversity of the DSS system: While some schools are under-utilizing the tuition fee incomes required to be set aside for fee remission/scholarships, some 40% of the schools are already using well above the required amount. Some DSS schools are also offering additional financial assistance to needy students over and above the existing requirements, or setting fee remission criteria no less favourable than the Government's student financial assistance schemes;
- (b) Flexibility in student admission being one of the key principles of the DSS; and
- (c) Some DSS schools are stepping up efforts to recruit students from disadvantaged background.

The WG therefore does not favour recommending the adoption of drastic measures which may depart from the above key features. Instead, it recommends that the EDB should focus on ensuring that schools will adopt policies and practices that can better ensure compliance with the existing requirements. Drastic measures should be contemplated only if empirical evidence a few years down the road suggests that such are necessary to

¹ Suggestions made include mandating the provision of additional financial subsidy to needy students, setting up a centralized fund for fee remission/scholarship purposes, capping the amount to be used for scholarship purpose and mandating DSS schools to surrender a certain percentage of their school places for central allocation. The WG deliberation on these suggestions including views on the implications of their adoption are set out respectively in paragraphs 3.8, 3.12, 3.15 and 3.18 of this Report.

ensure compliance.

7. ***Enhancing transparency and access to information on fee remission.*** The WG considers that transparency (implying knowledge of how the fee remission systems of DSS schools operate) is the prerequisite to ensuring a fair chance of admission to DSS schools for students from different socio-economic strata. To this end, *the EDB, upon the WG's recommendation and with SED's approval, issued a circular in early July 2011 setting out new measures to enhance the accessibility of information on fee remission/scholarship schemes in individual DSS schools.*² Such measures include the following:

- (a) DSS schools are required to consult their School Management Committee (SMC)/Incorporated Management Committee (IMC) or parent-teacher associations on the operation and presentation of their school fee remission/scholarship schemes;
- (b) DSS schools are required to provide a hyperlink to their eligibility criteria for fee remission and clearly indicate in the application form for admission and the School Profile that needy students could apply for school fee remission;
- (c) DSS schools are required to enclose details of the eligibility and application for fee remission 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 Comprehensive Social Security Assistance (CSAA) and students eligible for subsidy administered by the Student Financial Assistance Agency (SFAA). This should be clearly set out in the details of the school fee remission/scholarship schemes for information of parents/prospective parents;

² The new measures have been set out in Education Bureau Circular No. 2/2011 on *Fee Remission/Scholarship Schemes in Direct Subsidy Scheme (DSS) Schools* and subsequently reported to the Panel on Education of the Legislative Council (Paper reference number: CB(2)2291/10-11(01)).

- (e) SFAA applicant students should be made aware of and given the opportunity to apply for school fee remission/scholarship schemes;
- (f) DSS schools should complete processing applications for fee remission and notify applicants of the outcome as early as possible;
- (g) DSS schools are *encouraged* to provide a simulation test for school fee remission to facilitate informed parental decision on school choice; and
- (h) the EDB will provide 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.

The WG further recommends that the EDB should keep in view the implementation of the above improvement measures and provide advice or intervention to schools concerned where necessary. (Paragraphs 3.4 and 3.5)

8. In their dialogue with the WG, the Hong Kong DSS Schools Council and some DSS schools brought to the attention of the WG the problems they faced in the administration of the fee remission schemes. First, the uncertainties and hence concern about sustainability faced by schools that have more than fully utilized the provision set aside specifically for fee remission/scholarship. Second, the desire for greater flexibility in the use of the reserve set aside for fee remission/scholarship by through-train schools. Though these two issues go beyond the observations of the PAC, the WG nevertheless chooses to address them as doing so would be conducive to the better administration of the DSS, an objective that befits the mandate given by the SED to the WG. The WG's views and recommendations on these two issues are set out in paragraphs 9 to 12 below.

9. ***Uncertainties faced by schools with utilization of fee remission/scholarship far exceeding the reserves set aside as required.*** The WG notes that a number of DSS schools (30 schools or about 40%) that admit a large number of needy students have used more than 100% of

the amount of their fee remission reserve. They are topping up their fee remission reserves by using their non-government funds. During the course of consultation, they indicated their concern about the long-term financial sustainability as they are obliged to administer a needs-blind admission. They hence request flexibility to revise their fee remission eligibility criteria to a threshold less favourable than those of the government financial assistance schemes to needy students.

10. *The WG recommends that (a) DSS schools with (i) the utilization rates of their fee remission/scholarship provisions being 100% or more in the past three consecutive years and (ii) two thirds of their fee remission/scholarship provisions or more being used for fee remission during the three years in question be allowed to apply to the EDB for exemption from the requirement of adopting eligibility criteria no less favourable than those of the government financial assistance schemes to needy students; (b) DSS schools given exemption should ensure that (i) students receiving fee remission before the schools adopt the revised eligibility criteria will not be affected; and (ii) sufficient notice must be given to prospective parents/students before implementing the new eligibility criteria. The conditions under which the exemption to DSS schools will be cancelled are set out in paragraph 3.22 (c) of the Report of the WG on DSS. (Paragraph 3.24)*

11. ***Better utilization of fee remission/scholarship reserves in through-train secondary and primary schools.*** Currently, the utilization rates of the fee remission/scholarship provisions are generally lower in primary schools. Given the close connection between the through-train primary and secondary schools, the WG considers that enabling the linked secondary school to admit more needy students by utilizing the consistently under-utilized fee remission/scholarship reserve of the linked primary school should help enhance the accessibility of DSS school places to students from grassroots background.

12. *The WG therefore recommends that (a) through-train secondary and primary schools be allowed to transfer a maximum of 50% of the fee remission/scholarship reserves of the linked primary school to the linked secondary school should they meet the prescribed conditions and obtain prior approval from the SMC/IMC; and (b) similar flexibility under*

identical terms be allowed for the transfer of fee remission/scholarship reserves of the secondary school to the linked primary school. (Paragraphs 3.27 and 3.28)

Strengthening the Governance and Internal Control of Direct Subsidy Scheme Schools (Chapter 4)

13. Born out of a conscious government decision to enhance diversity in the school system, DSS schools are given a greater operational flexibility to better enable them to develop their characteristics. Arising from this greater flexibility are also greater financial resources at their disposal. With more funds at their disposal, there come greater responsibilities and a greater need for accountability. Having regard to the policy design allowing DSS schools greater flexibility, the EDB has always refrained from micro-managing DSS schools. Yet, the EDB is aware that the community and the parents would understandably regard the EDB as the custodian of their interests insofar as schools' operation is concerned. Hence, the EDB has devised a host of guidelines on DSS schools' operation. The guidelines are premised on a trusting relationship between the EDB and the schools as well as a reliance on schools' internal governance framework to ensure the proper management and administration of DSS schools. However, the Audit Commission (AC)'s findings reveal that there are some practices associated with the governance and administration of some DSS schools which have fallen short of expectations. Of note is that most if not all of the AC's findings cover areas already included in the requirements in the guidelines promulgated.

14. The WG believes that the EDB should take a serious view of the custodian role that the community expects of it. Broadly speaking, there are two ways to ensure that DSS schools are administered and managed well and make good the areas in need of rectification as identified by the AC and PAC – *either* the EDB monitors directly each and every detailed aspect of every school's operation *or* the EDB continues to rely on DSS schools' internal governance. Between the two approaches, the WG unanimously favours the latter which it believes helps underline the diversity enhancement objective behind the DSS policy. The WG also believes that good internal governance can help ensure effectiveness,

credibility, and long-term sustainability of DSS schools. However, the AC and PAC findings do reveal that the EDB can continue to rely on schools' internal governance *only if* it is able to identify a way to ensure that the internal governance is *sound*. The WG therefore takes the view that it is of paramount importance to help DSS schools strengthen their governance and internal control.

15. ***Enhancing transparency of school governing bodies.*** The community especially parents of prospective and current students of a school have a legitimate interest in knowing who sit on the SMC/IMC. The WG therefore favours requiring all DSS schools to make transparent the composition of their school governing bodies. DSS schools with IMC are already obliged to do so under the Education Ordinance. *The WG therefore recommends that (a) consent of managers of DSS schools governed by SMC/MC be sought of the EDB's disclosure of their information including the name, tenure of office/date of registration and category of school manager; and (b) for schools with managers who refuse to give consent to the proposed disclosure, a remark indicating the number and categories, if applicable, of managers who have not given such consent be posted on the relevant part of the EDB's homepage. (Paragraph 4.7)*

16. ***Enhancing internal control mechanism.*** *Sound* internal governance can be assured only upon the availability of important management information and the existence of systems and processes which make accountability a reality rather than an empty pledge. The WG deliberated in great detail the regulatory framework that should be put in place *within* DSS schools to facilitate internal governance enhancement while respecting the diversity of DSS schools and obviating the need for the EDB to micro-manage DSS schools' day-to-day operation. The framework that the WG eventually recommends 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. These are elaborated in paragraphs 17 to 21 below.

17. ***Completion of a self-evaluation checklist.*** The WG considers

that through completing a self-evaluation checklist which sets out the processes considered essential to the integrity of a management system, DSS schools will increase their awareness of the need, and be guided, to put in place checks and balances for self improvement. *The WG therefore recommends that (a) all DSS schools be required to conduct self-assessment by completing the self-evaluation checklist regularly; (b) individual DSS schools be given flexibility in adapting or modifying the self-evaluation checklist to be developed by the EDB in collaboration with the Hong Kong DSS Schools Council to suit their own needs given that their needs do vary; and (c) relevant training be provided to DSS schools to facilitate the effective use of the self-evaluation checklist. (Paragraph 4.11)*

18. ***Mechanism under the SMC/IMC to conduct governance review on a regular basis.*** An SMC/IMC normally comprises more than 10 persons meeting for a few hours a few times every year. Given the potential liability of an SMC/IMC for possible mishaps in its DSS school and given that a DSS school is fee charging and granted with greater flexibility and autonomy, the WG considers that it is only fair that the SMC/IMC has at its disposal a mechanism to help it assure the proper and effective administration and management of the school. The WG sees the merits of setting up, under the SMC/IMC, a governance review sub-committee (or any other name the SMC/IMC sees fit) for conducting system review of various key management and financial control systems and processes including whether the various checks and balances are working as intended.

19. While some stakeholders such as school sponsors, SMC/IMC and some principals welcome and support the proposed mechanism, some DSS school principals consider the governance review sub-committee unnecessary since the self-evaluation checklist should have already met the needs for an internal system audit. They also consider the proposed governance review sub-committee detrimental to the mutual trust between the SMC/IMC and the Executive led by the principal. The WG, while appreciative of the anxiety of the principals, considers such sentiments rather misguided and unnecessary. The self-evaluation checklist per se would not safeguard system integrity and the proposed governance review is no more than a health check. After all, the school's executive arm should be held accountable to its governing body. After a series of

iterative sessions held to gauge different stakeholders' views on the proposed system, the WG remains of the view that a governance review sub-committee is necessary. The WG would also recommend that such a sub-committee be set up by the 2013/14 school year given its pivotal role in supporting the IMC/SMC's effective functioning as the governing body of DSS schools. We also see little operational impediment why this time-frame would not be achievable.

20. *The WG therefore recommends that all DSS schools be required to set up a governance review sub-committee to assist the SMC/IMC in reviewing the system integrity of various management and financial processes by the 2013/14 school year. Details of the requirements of the governance review sub-committee are set out in paragraph 4.13 of the Report of the WG on DSS.*

21. ***Essential items to be discussed at SMC/IMC meetings.*** The WG considers that a list of essential items that should normally be covered in an annual cycle of SMC/IMC meetings will help enhance accountability and governance such as forestalling the inadvertent oversight of important administrative and management issues. *The WG therefore recommends making it a mandatory requirement for DSS schools to put up essential matters for discussion and approval at SMC/IMC meetings. Details of the essential matters are set out in paragraph 4.19 of the Report of the WG on DSS.*

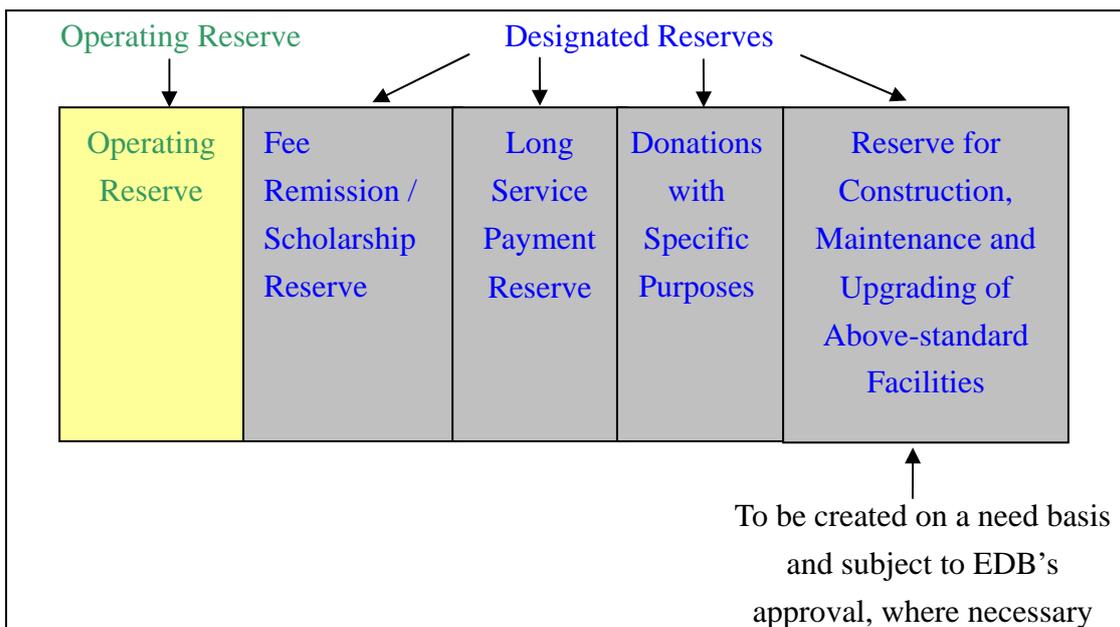
22. ***Management and financial audit.*** To the WG, internal governance by DSS schools and macro external oversight by the EDB as a regulator are complementary measures. The WG considers that without covering the management aspects, the audit inspection currently conducted of DSS schools alone would not be able to assure the prudent use of DSS schools' resources which should include not only funds but also other forms of resources available such as human resources. *The WG therefore recommends that (a) the existing audit inspection of DSS schools should be replaced by a management and financial audit covering management aspects as well; (b) relevant training be provided for DSS schools before the commencement of the management and financial audit from the 2014/15 school year; and (c) a review be conducted upon the completion of the first round of the management and financial audit of DSS schools to*

determine whether the management and financial audit should become an on-going measure; and if so, how. (Paragraph 4.21)

Strengthening the Financial Management of Direct Subsidy Scheme Schools (Chapter 5)

23. Being in receipt of public funds, DSS schools are accountable to the public and their stakeholders, including parents, for the proper use of resources for providing quality education in the best interest of the students. The onus of resource deployment of DSS schools is greater than that of their aided counterparts because they may also collect school fees and enjoy greater flexibility in the use of funds. Concomitant with a greater onus and greater responsibility is a higher expectation of accountability and transparency. In the light of the above thinking as well as the major areas of concern raised by the AC and PAC, the WG recommends new measures as well as refinement of existing measures to strengthen the financial management system of DSS schools.

24. ***Clear delineation between the operating reserve and the designated reserve.*** With a view to facilitating DSS schools' financial management and helping their stakeholders understand clearly the financial situation of the schools, DSS schools' reserves should be classified into two categories, namely the operating reserve and the designated reserve. Such demarcation is also necessary for the implementation of the proposed measures as set out in paragraphs 25 to 33 below. The arrangement is illustrated in the table below:



25. *Setting a ceiling for schools' operating reserve.* According to Financial Circular No. 9/2004 promulgated in September 2004, Government bureaux/departments should, in consultation with the Financial Services and the Treasury Bureau, set an appropriate reserve ceiling for surpluses kept by subvented organisations, including DSS schools. The surpluses may come from unspent subvention or unspent income from other sources supporting a subvented programme. Any surplus in excess of the ceiling should be returned to the Government (e.g. by way of offsetting from next year's subvention), or dealt with in accordance with the arrangements agreed between the Government and the organisations. In determining the appropriate level at which the ceiling should be set, the WG has taken into account, among other things, the principle that the proposed ceiling should allow ample room for DSS schools to cater for teachers' promotion in the years to come, additional teachers' salary increase, as well as routine repairs and maintenance expenses for standard facilities.

26. *The WG recommends that (a) the ceiling on the operating reserve should be set at an amount equal to 100% of the annual total expenditure, i.e. 12 months' operating expenditure; and (b) schools with accumulated operating reserve exceeding the ceiling should be allowed to rectify the situation through either reducing school fees, receiving less DSS subsidy, returning the excess surplus to the Government or transferring the excess*

surplus to the fee remission/scholarship reserve (subject to several conditions being met, details of which are in paragraph 5.13(c)(iv) of the Report of the WG on DSS). (Paragraph 5.13)

27. ***Special one-off arrangement.*** The WG considers that it may not be fair to apply the options listed in paragraph 26(b) above to DSS schools already with an operating reserve exceeding 12 months' operating expenditure right after the new measure of reserve ceiling is introduced, given that DSS schools have all along been allowed to keep all the accumulated reserves of both government and non-government funds. *The WG therefore recommends that (a) DSS schools be allowed to grandfather the reserve including assets in excess of the reserve ceiling accumulated before the implementation of the recommendation concerning reserve ceiling subject to the following conditions being met: (i) schools submit to the EDB plans with detailed accounts of their reserves including their types, proposed usage and, where necessary, timeframe for deployment endorsed at SMC/IMC meetings within a specified timeframe to be set by the EDB; (ii) the plans are approved by the EDB; and (b) the EDB should take into account schools' grandfathered reserve when processing any applications from schools for tuition fee increase or for setting up a designated reserve for construction, maintenance and upgrading of above-standard facilities as set out in paragraph 28 below. (Paragraphs 5.15 & 5.16)*

28. ***Setting aside school fee income for construction, maintenance and upgrading for above-standard facilities.*** Acknowledging that it is in the interest of both the DSS schools and the diversity of the school system for the DSS schools to develop their own characteristics, the WG is of view that DSS schools' flexibility in using operating reserve of non-government funds to finance above-standard capital works should be maintained. The WG therefore considers that DSS schools should be allowed, on a need basis, to set aside a certain portion of their school fee income for constructing above-standard facilities as well as maintaining and/or upgrading such facilities. Some DSS schools consider the original recommendations (viz. the amount to be set aside should not be larger than 10% of the school's annual tuition fee incomes and there remains cash in the operating reserves equivalent to six months' or more of the school's expenses after the proposed transfer) too restrictive. They proposed

lowering the six months' operating reserve requirement to two or three months and relaxing the 10% cap. The WG appreciates their sentiments and eventually agrees to moderate the limits yet without compromising the original considerations including that DSS schools should carry out projects relating to above-standard facilities in an orderly manner with sufficient advance planning, that they should be required to keep sufficient liquid reserve to maintain their normal operation without resorting to school fee increases after setting aside school fee incomes for the projects, and that there must be thorough consultations within the schools before they make the decision.

29. *The WG recommends that DSS schools with genuine needs for constructing, maintaining or upgrading above-standard facilities be allowed to set up a reserve for the purpose subject to the following conditions being met: (a) concrete plans have to be deliberated and approved by the SMC/IMC; (b) Parent-Teacher Associations (all parents if the reserve is used for new above-standard capital works) have to be consulted; (c) the amount to be transferred to the reserve for above-standard facilities should be no more than 10% of the school fee incomes of each school year; (d) there is no need to consult the EDB beforehand if after the proposed transfer, there remains cash in the operating reserve equivalent in amount to at least six months' the school's expenses; (e) the EDB's prior approval should however be sought if the school intends to transfer more than 10% of the annual school fee income or if after the transfer, cashflow in the operating reserve account falls below six months' expenses of the school; and (f) the EDB should not give approval to the application should the cashflow in the operating reserve account fall below three months' expenses after the proposed transfer. (Paragraph 5.23)*

30. ***Modifying the prevailing guidelines on investment.*** EDB's existing guideline stipulates that any other form of speculative investment (e.g. local equities) is not recommended because of the risk of financial loss. Nevertheless, DSS schools which have compelling and well-justified reasons may still invest with their non-government funds. Schools are required to go through due process, e.g. duly consult the schools' key stakeholders, in this regard. The WG agrees unanimously that DSS schools should concentrate their effort and resources on learning

and teaching instead of indulging in making investment so that students could benefit directly. To address the needs of some DSS schools that find themselves fully justified to make certain investments by using their own funds, the WG considers that permissible investment products should be clearly specified with corresponding guidelines drawn up.

31. *The WG recommends that measures be adopted with a view to enhancing the regulation of investment activities that DSS schools may conduct and ensuring that the financial situation of DSS schools remains sound and healthy after the investment. These measures comprise: (a) the SMC/IMC's approval should be sought before investment decisions are made; (b) the only funds that may be used for investment are the long service payment reserve, donations with specific purposes and the reserve for construction, maintenance and upgrading of above-standard facilities; (c) DSS schools should only be allowed to invest in (i) HK dollar bonds; and (ii) HK dollar certificates of deposits according to the prescribed criteria/conditions, details of which are set out in paragraph 5.26(d) of the Report of the WG on DSS; and (d) DSS schools should be alerted to the liquidity constraints of the two investment products as set out in (c)(i) and (ii) above. (Paragraph 5.26)*

32. ***Modifying the prevailing guidelines on purchase of properties.*** Given the liquidity constraints of and the high risk level associated with properties, the WG has great reservations about allowing DSS schools to purchase properties as an investment product. Nevertheless, respecting the DSS policy intention of promoting diversity, the WG has deliberately refrained from making prescriptive recommendations as far as possible. *The WG therefore recommends that the following two requirements be added to the existing requirements for the purchase of properties by DSS schools: (a) DSS schools should be required to keep at least an amount equivalent to six months' operating expenditure in cash after the purchase of properties; and (b) DSS schools should not be allowed to purchase properties through mortgages or any other borrowing arrangements. (Paragraph 5.28)*

33. ***Enhancing the transparency of schools' financial management.*** While the WG considers that DSS schools should enhance the transparency of schools' financial management as far as possible, it is also mindful of the

difficulty that over-disclosure may pose to school operations. *The WG therefore recommends that (a) DSS schools be required to disclose annually their major expenditures in terms of percentages of their annual overall expenditures; (b) DSS schools be required to disclose annually the cumulative operating reserve in terms of equivalent months of operating expenditure; and (c) a template be developed to ensure meaningful disclosure and comprehensibility of the data by DSS schools. (Paragraph 5.31)*

Training for Direct Subsidy Scheme Schools (Chapter 6)

34. ***Training for DSS schools.*** The WG considers that training is essential to prepare DSS schools to take forward the new proposed improvement measures for enhancing the governance, management and administration of DSS schools. To facilitate collaboration of school personnel in the school improvement process, each school should be required to send a team consisting of the principal, management staff, supervisor or school manager to attend the training programmes. *The WG therefore recommends that the training programmes including the objectives, framework, design and delivery, as set out in paragraphs 6.5 to 6.10 of the Report of the WG on DSS be adopted.* Furthermore, a steering committee on training for DSS schools comprising representatives from the Hong Kong DSS Schools Council, non-school sector professionals and colleagues from different EDB Divisions should be set up and be accountable to the Permanent Secretary for Education.

35. ***Training for managers of DSS schools.*** The EDB has been organizing structured training programmes for school managers of aided schools. The WG is of the view that training sessions with topics relevant to DSS schools should also be open to participation by school managers of DSS schools. *The WG therefore recommends that (a) the existing practice of inviting school managers of DSS schools to the structured training programmes for school managers should continue; and (b) an optional module on deployment of resources specifically for DSS school managers be added to the existing programmes to cater for the special needs of managers of DSS schools. (Paragraph 6.14)*

Measures to Ensure Compliance of Requirements of the Direct Subsidy Scheme by Schools (Chapter 7)

36. ***Measures to ensure compliance of requirements.*** The WG considers it necessary to enhance deterrence against persistent non-compliance and malpractice. In deliberating measures to enhance the existing mechanism to deal with non-compliance or malpractice, it also shares the EDB's keen concern about the interests of the students and considers measures affecting students not something that should be taken lightly. In the event, the WG prefers transparency and greater deployment of schools' internal governance mechanism to address and deter non-compliance and malpractice. *The WG therefore recommends that on top of the existing measures, the following new measures be put in place: (a) escalation of advisory letters to supervisors at the earliest opportunity; (b) escalation of warning letters to SMC/IMC members at the earliest opportunity; (c) disclosure of the non-compliance or malpractice with the school concerned named on the EDB's website if the malpractice remains to be rectified after exhaustion of the steps in (a) and (b) above; and (d) suspension of part of the DSS subsidy if a school fails to comply with an important requirement or rectify serious malpractice after exhaustion of the steps mentioned in (a) and (b) above until rectification is made. In order to ensure that the interests of students are not unduly affected, the EDB will assess the financial situation of the school before withholding the school's DSS subsidy. The EDB may decide to take the measure in (c) prior to, or in addition to, the measure in (d).* (Paragraph 7.5)

Status of Li Po Chun United World College of Hong Kong in the Direct Subsidy Scheme (Chapter 8)

37. ***Extension of DSS subsidy to Li Po Chun United World College (LPCUWC) of Hong Kong.*** Having reviewed the justifications put forward by the then Education Department and Education and Manpower Bureau for allowing LPCUWC to remain in the DSS in 1999 and 2002, and taken into account the uniqueness of LPCUWC, the WG has come to a view that LPCUWC is an education institute that Hong Kong should value in consideration of its culturally diversified school environment and

membership in a world league of UWC network. Should there be any change to its existing funding mode, fewer students would have the chance to enjoy such a multi-cultural and pluralistic learning environment. This would not be in the interest of local students. *The WG therefore recommends the continuation of the status quo, i.e. that LPCUWC be allowed to continue to remain in the DSS. (Paragraph 8.14)*