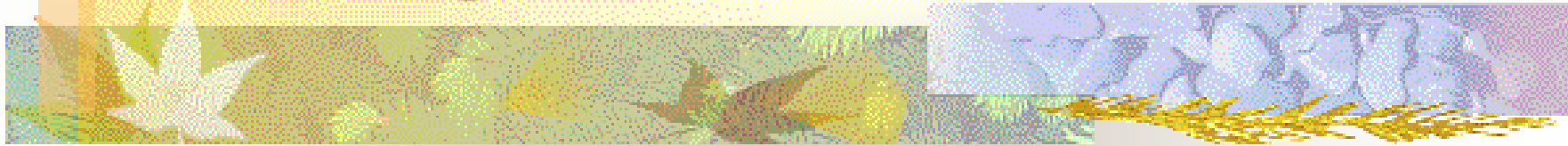


Implementation Details of the Improvement Measures to Strengthen the Financial Management of DSS Schools



24 September 2012

- EDB Circular No. 16/2012 on *Delineation of Reserves and Reserve Ceiling for the Operating Reserve of Direct Subsidy Scheme (DSS) Schools*

Setting up of Operating and Designated Reserves

- Operating Reserve

- Designated Reserves
 1. Fee Remission/Scholarship
 2. Long Service Payment
 3. Donations with Specific Purposes; and
 4. Construction, Maintenance and Upgrading of Above-standard Facilities

Basis for Allocation of the Reserves

- Balance of the accumulated reserve as at the end of the 2011/12 school year -- used as the basis for delineation of the five reserves
- DSS schools are to reflect their allocation of reserves in the 2011/12 audited accounts to be submitted to the EDB by end-March 2013, a month later than the usual schedule

Operating Reserve

- All reserves other than those in the designated reserves are recorded under the operating reserve

Designated Reserves - 1

■ Fee Remission/Scholarship Reserve

- Provisions accumulated in or before the 2011/12 school year, if any, should be recorded;
- Schools can continue to top up this reserve on an actual need basis;
- Transfer of funds in this reserve out to other reserves is prohibited unless with EDB's special approval

Designated Reserves - 2

■ Long Service Payment Reserve - 1

- As from the 2012/13 school year, DSS schools may transfer funds from the operating reserve to this reserve to meet the minimum requirements under the Employment Ordinance (EO);
- For transfer of funds above the minimum requirements under the EO, the long service payment policy should be endorsed by the SMC/IMC with proper documentation kept for checking by the EDB on a need basis;

Designated Reserves - 3

■ Long Service Payment Reserve - 2

- If the required long service payments can be offset by employees' MPF/retirement scheme benefits, the relevant amount has to be transferred back to the operating reserve annually or at least once every three years;
- Funds set aside in or before the 2011/12 school year for long service payment may be recorded under this reserve in the 2011/12 audited accounts

Designated Reserves - 4

■ Reserve on Donations with Specific Purposes

- Only donations with specific purposes could be recorded under this reserve. These refer to donations with **intended uses as specified by the donors OR planned uses as endorsed by their SMC/IMC**
- DSS schools to keep details of the donations including proof of the intended uses as specified by the donors OR planned uses as endorsed by their SMC/IMC for checking by the EDB on a need basis

Designated Reserves - 5

- **Reserve on Construction, Maintenance and Upgrading of Above-standard Facilities**
 - As from the 2012/13 audited accounts, it is at DSS schools' own discretion to start transferring up to 10% of school fee income to this reserve
 - Funds set aside in or before the 2011/12 school year for above-standard facilities with SMC/IMC's approval may be recorded in the 2011/12 audited accounts. Schools have to keep relevant proof of their projects and the amount already set aside for checking by the EDB on a need basis

Reserve Ceiling

- Will be implemented from the 2013/14 school year
- Fixed assets related to buildings within the school premises will not be counted
- Under exceptional circumstances, schools with surplus exceeding the reserve may apply to the EDB for exemption from the options to handle the excess surplus

An Example

Operating reserve (excluding the grandfathered amount) in the 2013/14 school year	\$55 million
Annual expenditure of a DSS school in the 2013/14 (i.e. reserve ceiling)	\$50 million
Amount in excess of the reserve ceiling	\$5 million

Grandfathering Arrangement – 1

- Balance of the operating reserve as at the end of the 2011/12 s.y. -- used as the basis for calculating reserves that can be grandfathered
- After allocating their surplus to the four designated reserves in end-February 2013, schools with surplus in the operating reserve in excess of the reserve ceiling, may apply for grandfathering the “excess amount”
- Fixed assets related to buildings within the school premises will not be counted

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

(1) Accumulated surplus: \$88 million

(2) Annual expenditure (reserve ceiling): \$60 million

(3)	Operating Reserve (1) – (4) – (5) – (6) – (7)	\$70 million
(4)	Fee Remission/Scholarship Reserve	\$2 million
(5)	Long Service Payment Reserve	\$1 million
(6)	Reserve for Donations with Specific Purposes	\$5 million
(7)	Reserve for Construction, Maintenance and Upgrading of Above-standard Facilities	\$10 million

“Excess” reserve that can be grandfathered: (3) – (2)
\$70m - \$60m
\$10m

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

(1) Accumulated surplus: \$129 million*

(2) Annual expenditure (reserve ceiling): \$60 million

(3)	Operating Reserve (1) – (4) – (5) – (6) – (7)	\$111 million*
(4)	Fee Remission/Scholarship Reserve	\$2 million
(5)	Long Service Payment Reserve	\$1 million
(6)	Reserve for Donations with Specific Purposes	\$5 million
(7)	Reserve for Construction, Maintenance and Upgrading of Above-standard Facilities	\$10 million

*with NBV of additional school premises of \$30 million

“Excess” reserve that can be grandfathered: (3) – NBV – (2)
 $\$111\text{m} - \$30\text{m} - \$60\text{m}$
\$21m

Grandfathering Arrangement – 2

- Applications -- by end-June 2013
- Surplus funds in the 2012/13 school year can be carried forward to the 2013/14 school year as a one-off arrangement

- EDB Circular No. 17/2012 on *Use of Government and Non-government Funds in Direct Subsidy Scheme (DSS) Schools*

Investment

- DSS schools should only use funds under the long service payment reserve, the reserve on donations with specific purposes and the reserve for construction, maintenance and upgrading of above-standard facilities for making investment
- DSS schools should only invest in (i) Hong Kong (HK) dollar bonds; and (ii) HK dollar certificates of deposits
- Effective from the 2012/13 school year

Purchase of Property

- DSS schools should keep at least an amount equivalent to six months' operating expenditure in cash after the purchase of properties
- DSS schools should not purchase properties through mortgages or any other borrowing arrangements
- Effective from the 2012/13 school year

Disclosure of Financial Information

- 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
- Cumulative operating reserve in terms of equivalent months of operating expenditure
- Effective from the 2012/13 school year

Training

- Provide training for management staff and managers of schools to prepare them to take forward the new improvement measures for enhancing the governance, management and administration of their schools as well as tackling the non-compliance problems
- As from the 2nd term of the 2012/13 school year

Thank you