

**Reserve Ceiling for
the Operating Reserve of
Direct Subsidy Scheme Schools**

18 November 2014

BACKGROUND - IMPLEMENTATION OF A RESERVE CEILING

- One of the improvement measures put forward by the Working Group on DSS pursuant to the recommendations in the Director of Audit's Report No. 55 and the Public Accounts Committee Report No. 55
- Set out in EDB Circular No. 16/2012 on "Delineation of Reserves and Reserve Ceiling for the Operating Reserve of DSS Schools" **to strengthen the financial management of DSS schools**

BACKGROUND - IMPLEMENTATION OF A RESERVE CEILING

- Same as the other subvented organisations, setting an appropriate reserve ceiling is to facilitate DSS schools to:
 - ✓ put in place long-term development strategies
 - ✓ make better planning on deployment of resources, including a timely review of school fee levels

RESERVE CEILING

- 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
- To be implemented w.e.f. the 2013/14 school year

RESERVE CEILING

Total Annual Expenditure:

■ Including:

- all expenditures under the **operating reserve**;
- all expenditures under (i) the reserve for **donation with specific purposes** and (ii) reserve for **construction, maintenance and upgrading of above-standard facilities** but excluding capital expenditures;
- **depreciation charges** for the acquired assets

RESERVE CEILING

Accumulated Operating Reserve:

■ Excluding:

- **Net Book Value** of additional school buildings within the school premises financed by non-government funds in the operating reserve

RESERVE CEILING

- Example of Operating Reserve exceeding the reserve ceiling:

Accumulated Operating Reserve > Total Annual Expenditure

Accumulated operating reserve in the 2013/14 school year	\$55 million
Total annual expenditure in the 2013/14 (i.e. reserve ceiling)	\$50 million
Amount in excess of the reserve ceiling	\$5 million

RECTIFICATION OPTIONS

- Paragraph 27 of EDB Cir. No. 16/2012:
 - to submit a plan on how to reduce school fees;
 - to receive less DSS subsidy;
 - to return the surplus in excess of the ceiling to the Government; or
 - to transfer the surplus in excess of the ceiling to the school fee remission/ scholarship.
- Option Form to attach to the audited accounts

ENQUIRIES

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