

Legislative Council Panel on Education

**Transitional Subsidy for Caput Schools
to Join the Direct Subsidy Scheme**

Information Note

PURPOSE

This paper is to inform Members of the arrangement to provide a transitional subsidy to Caput schools for a period of five years in a way similar to the existing arrangements for aided schools if they receive less recurrent subsidy as if they were Caput Schools after joining the Direct Subsidy Scheme (DSS).

BACKGROUND

2. Caput schools are non-profit-making private secondary schools in receipt of government subsidy since 1971 when the Government introduced a Bought Place Scheme to provide enough secondary school places. These schools are not allowed to charge fees in excess of those in the government/aided schools. In return, the Government provides them subsidy by making up the difference between the approved expenditure for the school places bought and the standard school fees that they have collected from students. In the 2004/05 school year, the Government bought from Caput schools a total of 7,047 school places and the total subvention to these schools is about \$230 million per annum. At present, there are nine Caput schools and one of them will cease operation in September 2006.

3. The Director of Audit recommended in his Report No. 41 that consideration should be given to reduce the number of school places bought from Caput schools having regard to the large number of unfilled places in government/aided secondary schools.

PROPOSAL

4. To take forward the recommendation, we have been encouraging Caput schools to join DSS. We intend to provide similar transitional subsidy to Caput schools on par with aided schools, that is, if Caput schools receive less recurrent subsidy after joining DSS, they will continue to receive subsidy as if they were Caput schools in the first five years.

JUSTIFICATION

5. Caput schools are in general supportive of the idea of joining the DSS so that they can have more flexibility with regard to curricula, fees, student admission requirements, choice of medium of instruction, etc. Of the remaining eight Caput schools in September 2006, two have applied for turning DSS, four are considering and two wish to remain status quo.

6. Caput schools are generally treated on par with aided schools in most education initiatives. Administratively, many principles adopted for the aided sector are also applicable to Caput schools, for example, criteria for determining the class structure and packing of classes. When processing the applications to turn DSS, Caput schools are also subject to the same evaluation criteria as the aided schools. Hence, only those Caput schools that provide quality education and a viable financial plan will be admitted to the DSS.

7. In June 2001, the Finance Committee approved vide FCR(2001-02)17 the provision of transitional subsidy for aided school joining DSS. Ex-aided schools that would receive less recurrent subsidy after joining DSS will continue to receive transitional subsidy as if they were aided schools in the first five years.

8. Similarly, Caput schools face financial uncertainties in the early stage of DSS development, having to compete for students by providing quality education. We therefore consider it reasonable to provide a

transitional subsidy to give Caput schools more lead time to adjust their cost structure and establish their reputation among parents during the initial years of their DSS operation.

9. As in the case of the ex-aided DSS schools, Caput schools turning DSS will continue to be eligible for government funding for major and emergency repairs exceeding \$2 million, and ongoing projects which have been approved prior to joining the DSS.

FINANCIAL IMPLICATIONS

10. Allowing Caput schools that join DSS to receive subsidy as if they were Caput schools for the transitional period of five years (on par with the arrangement for aided schools) may incur additional cost. However, such cost would have to be incurred anyway if they stay put as Caput schools. Therefore, the proposal is in principle cost-neutral for the Government as a whole.

WAY FORWARD

11. We will take note of Members' views and carry out the necessary steps to implement the above proposal with effect from the 2006/07 school year.

Education and Manpower Bureau
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