

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

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.

non-government funds flexibly and diligently for educational and school needs in 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~~ *Procurement 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. ~~Surplus funds which are not immediately required for use by schools may be placed in time deposits or savings accounts with banks licensed under the Banking Ordinance. As set out in the existing guidelines³~~ As a general principle, 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. **The liability for investment loss shall strictly fall on the SMC/IMC responsible for incurring such a loss;**
- (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	✧ The credit rating of the issuer

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.~~

certificates of deposits: ✧ short to medium term with a maturity period of one to five years.	must not be lower than the rating of A3 given by Moody's Investors Service Inc. or A- given by Standard & Poor's Corporation. ✧ The bank must be licensed under the Banking Ordinance, Cap. 155.
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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*~~ recommended to spread their bank deposits among several licensed banks, with the exposure to any one bank not exceeding say 50% of the funds. For fund size of over \$5 million, deposits with any one bank should be subject to a maximum exposure equivalent to 20% of the total funds under management³.

(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.

³ This is based on the guidance on the choice of banks for use by government bureaux / departments provided by the Hong Kong Monetary Authority.

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 **in DSS schools** 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>
https://www.edb.gov.hk/dss/tips_on_non-government_funds_en

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

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.

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