

Operating Expenses Block Grant
User Guide
for Aided Schools

Education Bureau
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1. INTRODUCTION

1.1 The Operating Expenses Block Grant (OEBG) aims at providing aided schools with greater flexibility in the use of resources and to support the implementation of school-based management.

1.2 This Guide spells out the features of the OEBG and the principles and rules for proper and effective use of the funds provided. The financial and accounting control arrangements for implementing the OEBG are also explained in this Guide.

2. FEATURES

Scope

2.1 With effect from the 2000/01 school year, each aided school is provided with an OEBG for meeting operating expenses. The OEBG covers virtually all the recurrent grants, except Salaries Grants or those items of expenditure which are disbursed on an actual claim or reimbursement basis (e.g. grants for rents and rates, passage and baggage allowance for teachers on overseas terms).

Structure

2.2 The OEBG is made up of two separate and distinct parts, known as "domains". These two domains are called "General" and "Special" respectively, as defined below -

General Domain

This covers most of the recurrent grants. Schools are free to decide the amount to be spent on individual constituent grants. If surpluses are available, schools may use such funds to top up expenditure on items in the Special Domain. Surplus of General Domain can also be used on items chargeable to other government subsidies outside the OEBG.

Special Domain

This covers grants which are allocated for achieving specific policy objectives. Each grant within the Special Domain is separate and no transfer will be allowed among the grants. Funds in this domain cannot be transferred out also, although they may be topped up with surpluses from the General Domain. The rationale behind this arrangement is to ensure that schools will deploy the funds for the specified purposes.

2.3 The constituent grants and virement flexibility of the OEBG will change over time. In the light of experience and changing circumstances, EDB may consider, for instance, reclassifying an item in Special Domain as General or grouping some constituent grants in Special Domain to allow virement of funds among such grants. Also, when funds are available for new initiatives, EDB shall determine whether the funds should be included in the OEBG, and in which of its two domains.

Initial level

2.4 The OEBG for 2000/01 school year is set on the basis of the rates of the constituent grants approved for 1999/2000 school year, notwithstanding the general deflation during 1999.

Subsequent revisions

2.5 The OEBG is revised annually in accordance with the movement of the Composite Consumer Price Index. EDB will also take into account the volume changes in determining the amount of the OEBG for each school (i.e. changes in class number/size, subjects taught, etc.).

Rate reviews

2.6 Apart from inflationary and volume adjustments as mentioned above, EDB will review the need to revise in real terms the rates of individual grants as and when required.

Surplus retention

2.7 To give schools greater flexibility, schools are allowed to retain surplus balance up to twelve (12) months' provision of the OEBG with effect from the 2000/01 school year. EDB will only consider applications for accumulation of surpluses in excess of twelve (12) months' provision in exceptional circumstances.

2.8 When the surplus (excluding the funds set aside as outstanding commitment for the payment of Severance Payment/Long Service Payment for staff as mentioned in paragraph 3.6 below) exceeds the twelve (12) months' provision, schools are free to decide from which constituent grant the excess may be clawed back by EDB. In this regard, schools may consider paying the excess from the Special Domain first and then from the General Domain. This is because surplus in the General Domain has greater virement flexibility - surplus funds can be transferred to the Special Domain if subsequently found necessary, but not vice versa.

3. PRINCIPLES AND RULES ON USAGE

Fundamental principles

3.1 The OEBG provides schools with greater flexibility in the use of resources. In this regard, schools are allowed to set their own spending priorities and allocations, having regard to the objectives and policies laid down by their School Management Committees (SMC). Schools are reminded to deploy their resources in a cost-effective manner to meet their individual needs and policy priorities such as:

- (a) reducing language teachers' non-teaching workload;
- (b) providing further support to students in language education; and
- (c) providing funding for large-scale school activities.

3.2 In exercising flexibility in the use of resources, schools are required to consider carefully the interests of both students and staff. The annual provision of government subvention should be sufficient for schools to cover all operating expenditure. Schools should have sound financial planning and good budgeting in utilizing government funding in order to meet the needs of current students as well as school development and various policy priorities. While schools may retain up to twelve (12) month's provision under the OEBG, they are not expected to keep too much surplus without specific purposes. Schools are reminded to deploy their resources in a cost-effective and timely manner and to ensure that expenditures incurred are reasonable and necessary for educational purposes. Starting from the 2012/13 school year, schools may use the surplus of the OEBG for the payment of statutory holidays/annual leave arising from the following types of specific no-pay leave¹ for their staff remunerated under Salaries Grant :

- (a) no-pay sick/maternity/special tuberculosis leave (referred to as no-pay sick leave);
- (b) no-pay study leave for attending education-related courses;
- (c) no-pay leave granted due to poor health condition with medical documentary proof; and
- (d) no-pay leave granted for alleviating the redundancy problem of an individual school/schools under the same Sponsor (prior confirmation from the School Development Officer concerned is required).

For no-pay leave other than the above listed, schools should take own responsibility to fulfill all statutory requirements including meeting any possible

¹Prevailing procedures should be followed in approving no-pay leave to staff in schools. Schools should retain all supporting documents for payment arising from the above specific no-pay leave for record and inspection, if required.

expenditure out of non-government funds.

3.3 Schools must not use the provision to procure services or materials merely to drill students for assessments. Expenditures on celebration, entertainment, flower baskets, fruit baskets, wreaths and all other similar items for ceremonial activities or tributes to other schools should be kept to the absolute minimum. In addition, schools must ensure that any recurrent consequences arising from exercising funding flexibility will be absorbed within the OEBG or met by schools' own funds.

Rules on usage

3.4 In incurring expenditure, schools should observe the ambit of the constituent grants of the OEBG, as set out in the Codes of Aid and in circulars issued by the EDB from time to time. In addition, schools should ensure that the total spending should be kept within the amount of the OEBG, i.e. no topping up of the OEBG will be given.

3.5 Subsidy will continue to be provided for Provident Fund (PF)/Mandatory Provident Fund (MPF) contributions in respect of janitors, clerical and other supporting staff employed within the provision allocated by EDB for Administration Grant/Revised Administration Grant. For staff employed with funds under other constituent grants of the OEBG, schools are required to meet the PF/MPF contributions with the respective grants or surplus funds under the OEBG or their own funds. An illustration of how the PF/MPF contributions will be met by the subsidy from the EDB and from the school's own funds is provided at *Appendix A*.

3.6 While deploying the constituent grants under the OEBG such as Capacity Enhancement Grant and Administration Grant/Revised Administration Grant to employ staff, schools should set aside part of these grants for the payment of Severance Payment/Long Service Payment² as outstanding commitment. In case these grants are insufficient to settle the payment, schools may deploy surplus in the General Domain of the OEBG to cover the deficit. Schools should keep a separate ledger for the Severance Payment/Long Service Payment and work out the amount payable to each staff concerned on their cessation of service. (Guidelines for calculating the Severance Payment/Long Service Payment at *Appendix B*).

3.7 On the basis of the principles and rules stated above, the following items of expenditure are also not allowed to be charged to OEBG –

²Separate subsidies are provided to aided primary, aided secondary and special schools to pay the Long Service Payment for non-teaching staff employed under Administration Grant/Revised Administration Grant. Aided primary and special schools may also claim reimbursement of the Severance Payment for these staff following the prevailing procedures. As for aided secondary schools, the Severance Payment of the non-teaching staff should be paid through Administration Grant, which is not reimbursable.

- (a) fringe benefits/welfare for staff, including housing benefits, provision of food or food allowance, travelling allowance, medical expenses, etc.;
- (b) entertainment expenses such as lunch/dinner for staff not related to their discharge of duties ³;
- (c) penalty charges, fines and interest payments;
- (d) loans to staff or third parties;
- (e) subscription to staff associations and professional bodies;
- (f) write-offs e.g. overpayments;
- (g) administrative and management expenses, including salaries of staff, of the headquarters or other service units of the sponsoring organization; and
- (h) donations.

The above list is not exhaustive. EDB will revise the list and inform schools of the changes as and when appropriate. In case of doubt, schools should consult the Regional Education Offices of EDB.

4. FINANCIAL AND ACCOUNTING ARRANGEMENTS

Expenditure budget

4.1 To enable schools to know in advance the amount of OEBG funds available for the school year, and to facilitate schools in setting their own spending allocations, EDB will issue an Allocation Advice (proforma at *Appendix C*) to schools before the school year commences.

4.2 On the basis of the Allocation Advice, schools should devise its own budget (proforma at *Appendix D*) on how to use the OEBG funds. Schools should seek the approval of their SMCs of the budget and make the approved

³As a guiding principle, entertainment expenses such as lunch/dinner for staff should not be charged to the OEBG or any school funds account. However, under school-based management, the SMC may approve expenses on entertainment according to the needs and policy priorities of the school on condition that the expenditures incurred are reasonable and necessary for educational purposes and met with in a cost-effective manner. In this connection, the expenses in respect of breakfasts/lunches/dinners incurred by school staff in relation to their discharge of duties in major school functions such as School Anniversary Dinner, Parent Teacher Association Annual Dinner etc can be charged to the OEBG. Schools are required to avoid lavishness and to make conscientious decision in providing such expenses. The limits of such expenses per occasion and per head are \$150 for breakfast, \$350 for lunch and \$450 for dinner with service charge and tips included. The SMC is required to provide full justifications if the expenses exceed these limits.

budget transparent to all parties concerned. Schools should also submit a copy of the approved budget to the Regional Education Offices.

Expenditure control

4.3 To ensure that the OEBG funds are spent properly and cost-effectively, schools should obtain directives from their SMCs regarding the scope, criteria and rules for allocating funds. Schools should ensure that the approved budget is followed in incurring expenditure. As there may be practical difficulties for schools to revert promptly to SMCs for making variations to the approved budget arising from urgent or unforeseeable circumstances, schools may consider seeking delegation of the authority from SMCs for making changes to the budget up to a certain financial limit.

4.4 Schools should ensure that the total expenditure is kept within the amount of OEBG. Any deficit will have to be met by the schools' own funds. Also, if expenditure is found improperly incurred or charged to OEBG funds, EDB shall ask the school concerned to explain the anomalies. In the absence of acceptable explanations, the school should make good such expenditure by charging it to its own funds.

Release of OEBG

4.5 OEBG funds are released to schools according to the following schedule –

- (a) Administration Grant will be paid monthly.
- (b) Other grants will be released in one lump sum in August (e.g. Consolidated Subject Grant) or in two tranches in August and April (e.g. School and Class Grant). Adjustment may be made during the year to account for changes in class number/size, subjects taught, etc.
- (c) School-based Support Scheme for Newly Arrived Children will be paid once a year on submission of claims by schools.

Accounting and reporting requirements

4.6 Schools should continue to maintain separate ledger accounts for each constituent grant of OEBG. In addition, schools should keep a General Domain Control Account and a Special Domain Control Account for the purpose of recording and monitoring the surpluses. Schools should also report periodically to their SMCs the expenditure position of OEBG. A proforma expenditure report is at *Appendix E*.

4.7 Schools should submit audited annual accounts and such other financial statements as required by EDB as at present. In respect of OEBG,

schools should submit the financial statement in accordance with the prevailing circular memorandum calling for submission of audited accounts. The auditors should certify that the OEBG funds have been used in accordance with the ambit and rules as promulgated in the Codes of Aid and in circulars issued by EDB from time to time.

Surplus retention

4.8 Schools should ascertain the surplus balances of grants under the General Domain and Special Domain respectively. The surpluses (excluding funds set aside as outstanding commitment for the payment of Severance Payment/Long Service Payment for staff as mentioned in paragraph 3.6 above) should be totalled and if this total exceeds the twelve (12) months' provision of OEBG for the current year, schools should return the excess to EDB as set out in paragraph 2.8.

Administration Grant (AG) and Revised Administration Grant (RAG)

4.9 Starting from the 2003/04 school year, for schools which may not have sufficient surpluses in their General Domain for fulfilling the contractual commitments they have made in the engagement of janitors/clerks paid by the AG or RAG, EDB will, on an exceptional basis, allow them, upon successful application, to transfer their Special Domain surpluses to top up the costs to be incurred in the continued employment of janitor/clerical staff paid by the AG or RAG already committed by them. The application should show that the following conditions have been met and should be endorsed by the School Management Committee and be forwarded to the respective Regional Education Offices for processing -

- (a) existing contractual obligation to the continued employment of the janitor/clerical staff paid by the AG or RAG in the school year;
- (b) insufficient surplus in the General Domain for fulfilling (a) above; and
- (c) surplus being available in the Special Domain.

For (b) above, schools are required to exhaust the surplus in the General Domain for paying the staff employed under AG or RAG before using the surplus in the Special Domain to pay for the remaining balance. Each application will be considered on its individual merits, and approval, if granted, is subject to annual review.