Annex II: the respective numbers of primary and secondary schools which ceased operation due to an insufficient student intake each year, and the respective amounts of public money thus saved each year are estimated as follows -

School year	Number of schools which ceased operation		Estimated Savings (Note 2) ($m)	
	Primary	**Secondary**	**Primary**	**Secondary**
2002/03	4	0	13	0
2003/04	6	0	12	0
2004/05	12	0	23	0

Notes:

The figures represent year-on-year estimated savings. The actual savings arising from reduction of classes and schools which ceased operation have to be worked out on a school by school basis as there are significant variations between schools. The process is very laborious as, for example, there was reduction of classes in some 400 schools in 2004/05 school years. Therefore, estimates by using the following procedures have been made instead:

1. In estimating the savings arising from reduction of classes, the actual savings through reduction of classes in 10 schools were calculated. It was found that the savings range from around 20% to 80% of the territory-wide average subvention per class while most savings fall within 30 to 50% of the average subvention. The variation is due to the fact that savings from class reduction depend on a number of factors such as the number of classes a school is running, the operation overheads and maintenance cost, etc. The actual savings per class are usually much less than the average subvention per class. Unless a school is closed, there cannot be proportionate reduction in the overheads due to class reduction. A discount factor of 60% is therefore applied to the territory-wide average subvention per class in the calculation of the estimated savings.

2. In estimating the savings arising from school closure, it was found that generally the number of classes a school would have if it were to continue operation would be about two-thirds of the number of classes it had in its last year of operation. Therefore, the actual savings are around two-thirds of the actual subvention the schools received in the school year immediately before they were closed. A discount factor of 1/3 is therefore used in the calculation of the estimated savings.

END