APPENDIX 17

中華人民共和國香港特別行政區政府總部教育統籌局
Education and Manpower Bureau
Government Secretariat, Government of the Hong Kong Special Administrative Region
The People's Republic of China

本局檔號 Our Ref.:

來函檔號 Your Ref.:

電話 Telephone: 2892 6168

傳真 Fax Line: 2530 3780

24 January 2005

Ms Miranda Hon
Clerk to Committee
Public Accounts Committee
Legislative Council Secretariat
8 Jackson Road, Central
Hong Kong

Dear Ms Hon,

The Director of Audit's Report on the Results of Value for Money Audits (Report No. 43)

Thank you for copying to us the email message of Mr Jal Shroff, the former Chairman of the English Schools Foundation ("ESF"), dated 17 January 2005. I would like to elaborate on the context within which the development covered in response to "Question (a)" took place.

Agreement on the Withdrawal of Subsidies

As we have explained to the Public Accounts Committee ("PAC"), the ESF has clearly acknowledged that the parity principle has foregone following the freeze of the subvention rate with effect from the 2000/01 school year. This has been documented in internal records within the ESF and formal correspondences with Government. The only trigger for revisiting the issue is when inflation threatens the ESF's viability. Irrespective of how one looks at it, logically, this trigger does not justify disowning the agreement to forego the parity principle especially when, after years of deflation, the prevailing price level remains significantly lower than that in 2000.

On the 13-year withdrawal programme, it is important to note that it is not dependent on the proposed land lease modification. As clearly illustrated by exchanges in 2000-2001, Government shares the

ESF's view that the subvention withdrawal should be properly managed with a reasonable transitional arrangement, which should comprise a basket of measures, with land lease modifications being one of the several possibilities mooted. Of note is the fact that, the then ESF Chief Executive's letter dated 15 January 2001 indicating clear concession on the parity principle took place after the communication by the then SEM on 13 April 2000 in respect of Government's reservation about land lease modification. In other words, the explicit agreement to forego the parity principle was given AFTER clear knowledge of the non-feasible nature of lease modification. In addition, other avenues for generating income and cutting costs were also touched upon in the course of the discussion. It was against this backdrop that the ESF applied for the allocation of sites for running two Private Independent Schools. The ESF has also indicated at an early stage of the negotiation that it would reduce its staff cost (cf. the then ESF Chief Executive's letter of 17 June 1999), though visible progress was only seen after a lapse of five years.

Indeed, to look at the question more fundamentally, the focus of the discussion was not on "whether" recurrent Government subsidies should be withdrawn, but rather on "how" the withdrawal should be phased. Government has been pursuing the review with goodwill, taking into account the possible impact on the ESF and its stakeholders. And that is also why, despite our principled approach, the reduction in subvention to the ESF has been rather mild notwithstanding the fiscal deficit.

Others

We also wish to take this opportunity to supplement our verbal advice with a written response on the following issues which have been covered in the hearing session on 10 January –

(a) "Approval" of Annual Estimates of the ESF: There is no requirement under the Education Ordinance (Cap 279) or the English Schools Foundation Ordinance (Cap 1117) for the ESF to submit its annual estimates for "approval" by Government. Although it has been the ESF's understanding that its past submissions were intended for our approval, we only examine such estimates in considering the school fee level of the schools, calculating grants or in contexts for similar requirements. This generally applies to all categories of schools including aided schools. It is the primary obligation for individual schools to exercise proper financial control and maintain their financial viability.

(b) Overdraft Problem in the ESF: A Member raised concern about the overdraft problem of the ESF as evidenced in its audited accounts. As we responded on 10 January, we are aware of the problem. We wish to elaborate that in receiving the routine estimates from the ESF, we have indicated a need to maintain a smooth cashflow at least from the late 1990s.

In more recent years, we also noted that due to some non-recurrent reasons (e.g. lower income arising from the SARS outbreak and the commissioning of capital upgrading works in some ESF schools), the negative cashflow in the ESF at its financial year end (i.e. August) has increased. This is an issue that we look into in the context of our examination of the ESF estimates and audited accounts. We have also, during our informal exchanges with the ESF leadership, referred to the scope for evening out the cashflow of the ESF, especially given the rather stable and predictable spending patterns of educational establishments.

Yours sincerely,

(Mrs Cherry Tse)
for Secretary for Education and Manpower

c.c. Chairman, English Schools Foundation
Acting Secretary and Chief Executive, English Schools Foundation
Secretary for Financial Services and the Treasury
Director of Audit
Mr Jal Shroff