

**Hearings of the Public Accounts Committee
Value-for-Money Audit on the English Schools Foundation**

**Chapter Four: Corporate Governance and
Headquarters Administration of the ESF**

Speaking Notes for the SEM

Thank you Chairman.

2. This Chapter of the Audit Report covers corporate governance and Headquarters administration. Both are core issues pertaining to the sustained well-being of the English Schools Foundation (“ESF”) as a strong education institution. We generally agree with the Audit observations and recommendations. We hope to see early implementation of necessary improvement measures within the ESF to bring about a more transparent and accountable organization, which operates on sound cost-effectiveness performance.

Governance Reform within the ESF

3. Yesterday, the ESF held its annual Foundation meeting. Among other businesses, there has been an extensive discussion on a set of draft guidelines prepared by the ESF Chairman for the restructuring of the ESF governance and management. This attempt strongly demonstrates the Chairman’s commitment in sustaining the ESF as a quality education centre, which we deeply appreciate.

4. We see the ESF Foundation’s endorsement of the guidelines a good first step towards the right direction of modernizing the governance structure of the ESF. We note that the principles and approach are sensible ones but as always, devil is in the detail, which would be worked out by a task force. At this point of time, this task force has yet to come into being. A clear way forward is pending. Whether the intended results of the guidelines could be delivered would hinge on the shape of the finalized product to be available next year. We sincerely hope that the entire ESF community could render its continuous support to the upcoming task force and the ESF Executive Committee in order to bring this important task to fruition in a timely manner. Without prejudice to Government’s overall policy of not micro-managing any subvented body, we would be happy to contribute our knowledge and experience in school administration should the ESF considers our advice useful and relevant to

the review work in the next step.

5. Back to the Audit Report, we believe that the final outcome of the governance reform could address these problems identified during the audit exercise or at our fact-finding work –

- (a) The existing mammoth-sized governance body is less than effective and must be slimmed up. The proposed size of 25 as contained in the Chairman’s guidelines seems consistent with the Audit observations.
- (b) Composition of the ESF governance body should reflect a proper balance of views from various sectors.
- (c) Proper procedures should be put in place to avoid any possible conflicts of interest which might undermine the quality of management. Essentially, stringent declarations of interest requirements should apply as they do within Government and in the private sector.
- (d) Actions should be done to ensure that as a fundamental practice, decision making in a fully informed and evidence-based approach should be practiced at all level of management within the ESF. Proper records should be maintained on the decisions made and on the considerations underpinning such decisions.

As stated in the Audit Report, we would also review our long term role on the ESF Foundation and the ESF ExCom, giving regard to our usual practice of not involving in the management of individual schools or their school sponsors.

Cost Effectiveness of the ESF

6. Meanwhile, pending outcome of the ESF governance reform, we would continue to expect the ESF to enhance its cost-effectiveness to safeguard prudent use of public funds and parents’ tuition fees. This is important in that further to the “oyster lunch”, which brought uneasiness to many ESF stakeholders when it was known to the public earlier this year, the Audit Report reveals departure from market practices in various aspects of the ESF operation.

7. We are glad that the ESF has so far been positive in its response

to the Audit findings. While we should offer a reasonable period of time for it to adjust, the ESF must take prompt action and seize every opportunity to seek remedial measures early. Members of the public would be interested in hearing from the ESF justifications in support of its policies touched upon in the Audit Report. For example –

- (a) **Remuneration:** Why is it necessary to offer a remuneration package much more favourable than that offered by other local international schools whose standard of operation is comparable to that of ESF? How is it value-for-money? What is unique about the ESF? And in what ways are ESF teachers distinctive from their local counterparts that deserve a much enhanced package?
- (b) **Housing Benefits:** ESF staff are privileged to have quarters built in prime sites. Why is it necessary for the ESF to offer rental allowance up to 50% of monthly salary (as high as 90% back in early 1990s)? On what basis did the ESF draw up such a rate? Has the rate been the outcome of vigorous market research? Were the rates adopted only after a decision by ExCom in an informed manner with justification and financial implications to the ESF thoroughly set out in a paper to ExCom?
- (c) **Overdraft:** Cashflow of schools with a long history should be quite stable and predictable. What special circumstances that keep recurring every year that have barred ESF from better managing its income and expenditure pattern to smoothen its cash flow? While the ESF has been able to run on surplus towards year end, where does the money go when ESF parents pay their fees during the year?
- (d) **Golden Handshake:** In what circumstances would the ESF offer payments to departing staff to an extent more than that stated in the employment contract? Any rule on how to assess the amount of enhancement? Who could make such decisions? Were these decisions properly documented? Why was the ExCom not consulted and not even informed in some of the cases?

8. With the above general remarks, we welcome Members' questions on Government's views in relation to Chapter Four of the Audit Report.