

Chapter 2

Government subsidies to the English Schools Foundation

The objectives of this audit review were to examine the evolution of government subsidies to English Schools Foundation (ESF) schools vis-à-vis international schools, and the Education and Manpower Bureau (EMB)'s reviews of the subsidies to the ESF in recent years.

2. **Prof Hon Arthur LI Kwok-cheung, Secretary for Education and Manpower,** and **Prof Felice Lieh MAK, Chairman, ESF,** respectively made an opening statement at the Committee's public hearing. Their statements are in *Appendices 9 and 10* respectively.

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3. The Committee noted that government subvention to the ESF on the parity of subsidy principle was premised on the 1965 Education Policy White Paper in recognition of the need for English schools for English-speaking children, which led to the establishment of the ESF in 1967 through the enactment of The English Schools Foundation Ordinance. Since the establishment of the ESF, the EMB had carried out three major reviews of government subsidies to ESF schools in 1979, 1995 and 1999.

4. The Committee also noted that, in response to the request from expatriate communities for the provision of more international school places, the EMB formed a Working Group on the Provision of International School Places to review the government subsidies to international schools. The Working Group's recommendations were approved by the Executive Council in 1995.

5. In response to the Committee's enquiry as to why ESF schools were not included in the review of government subsidies to international schools in 1995, the **Secretary for Education and Manpower** said that because of the unique status of the ESF, which was established under its own Ordinance, the EMB considered it more appropriate to conduct separate reviews for ESF schools and international schools. This arrangement had no implication on whether ESF schools were international schools.

6. According to paragraph 2.7(a) of the Director of Audit's Report (the Audit Report), in January 2000, in its report to the Social Service Policy Group chaired by the Chief Secretary for Administration, the EMB stated that ESF schools were not different in nature from other international schools in terms of curriculum offered and student mix.

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However, government subsidies provided for ESF schools were much more favourable than those for other international schools. As revealed in Appendix B to the Audit Report, on 22 February 2000, the EMB expressed a different view that ESF schools were in a category entirely different from international schools and played an important role in providing parents with choice and diversity. In this connection, the Committee asked:

- about the reasons for the EMB changing its view; and
- whether such a change implied that the EMB had in the past recognised that ESF schools were different from international schools.

7. The **Secretary for Education and Manpower** and **Mrs Fanny LAW, Permanent Secretary for Education and Manpower**, responded that:

- as the level of government subsidies provided to ESF schools was different from that of international schools, seen in this perspective, it was true that ESF schools were in a category different from international schools;
- as defined by the Working Group on the Provision of International School Places, international schools were schools which followed a non-local curriculum and their students did not sit for local examinations. From this perspective, ESF schools were not different from international schools in nature, as ESF schools also followed a non-local curriculum and their students also did not sit for local examinations;
- unlike local aided schools, the graduates of which mostly pursued their studies in local universities, the majority of the graduates of ESF schools, similar to those of international schools, pursued their studies overseas; and
- local schools must provide their students with a choice to sit for local examinations, even if they offered the International Baccalaureate curriculum.

8. In response to the Committee's enquiry about the ESF's position within the education sector, **Mr John Bohan, Acting Secretary and Chief Executive, ESF**, stated in his letter of 28 December 2004, in *Appendix 11*, that:

- among those living and working in Hong Kong were people from around the world, including ethnic Chinese who held passports of other countries, people of other Asian ethnicities, Eurasians, as well as those who would traditionally have been categorised as "expatriates". These groups had permanent

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residence rights in Hong Kong. They contributed to the local economy, paid taxes and considered themselves as Hong Kong people. The ESF served people in those categories as well as an increasing number of local Chinese families;

- with regard to its student population, the ESF did not regard a distinction between “local” and “international” as a meaningful one. In ESF schools, nowadays 81% of students were permanent residents in Hong Kong; and
- the ESF regarded itself as an integral part of the local education system. Underpinned by its Ordinance, the ESF provided the system with an international dimension, as befit an international city. ESF schools were partners of the EMB, working together on a number of initiatives including the opening of private independent schools.

9. As stated in paragraph 2.10(a) of the Audit Report, during the EMB’s consultations on the possible withdrawal of government subsidies to the ESF, the Chairman of the Foundation, the supreme governing body of the ESF, and the Chief Executive of the ESF had indicated their willingness to work with the Government for a smooth transition. However, in her opening statement made at the hearing, the Chairman of the ESF stated that no proposal on changing the basis of ESF funding was ever put before the Foundation. The Committee asked:

- about the basis of her statement; and
- whether the Foundation knew about the proposed withdrawal of government subsidies to the ESF at that time.

10. The **Chairman, ESF** said that:

- as provided in The English Schools Foundation Ordinance, the Foundation was the supreme governing body over the Executive Committee (ExCom) which was the executive body of the Foundation. This provision clearly stipulated that decision-making powers vested in the Foundation rather than the ExCom;
- the ExCom had not provided sufficient information to the Foundation as far as the proposed reduction or withdrawal of recurrent government subsidies was concerned, which she considered to be serious negligence of the ExCom; and

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- according to the minutes of the Foundation's annual general meetings, the proposed reduction or withdrawal of government subsidies to the ESF had not been discussed nor endorsed by the Foundation.

11. **Mrs Cherry TSE, Deputy Secretary for Education and Manpower**, stated that the Secretary of the ESF had made a report on "ESF subvention", among other issues, to the Foundation at its annual general meeting on 14 December 2000. An extract from the minutes of the meeting is in *Appendix 12*. The Secretary's Report on the "ESF subvention" issue read as follows:

"Last year I spoke of the issue of the ESF grant which has supported ESF since 1967 and in the case of the Government's English schools long before that.

As a result of lengthy negotiation, the grant has been capped at its current level apart from growth in student numbers. So effectively, the principle of parity has been conceded. It was unrealistic with the Government spending so much on its own programme of reform that we should also benefit thereby depriving the local sector of much-needed resources. However, we shall reserve the right to go back to Government should inflation bite and threaten our viability."

12. The **Deputy Secretary for Education and Manpower** added that:

- it was ESF practice that the Secretary would report to the Foundation at its annual general meetings on any important issues that had come up in the past year;
- judging from the contents of the Secretary's Report, the Foundation should have been aware that:
 - (a) there was ongoing discussion between the ESF and the Government over the proposed reduction or withdrawal of recurrent government subsidies to the ESF; and
 - (b) the parity of subsidy principle had been conceded;
- given that the Foundation meeting on 14 December 2000 was attended by various stakeholders including school principals as well as representatives of teachers and parents, they should have been aware of the concession on the parity of subsidy principle and the possible withdrawal of government subsidies to the ESF; and

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- the minutes of the Foundation meeting should have recorded more details if there was any dissenting view on the “ESF subvention” issue reported by the Secretary.

13. **Dr Sarah Rigby, Chairwoman of Joint Council of Parent Teacher Associations, ESF**, said that:

- as the “ESF subvention” issue was subsumed in the Secretary’s Report instead of being put as a separate agenda item for that Foundation meeting, the issue was not widely communicated to the ESF parents at large. If the issue was included under a separate agenda item, there should have been much more inputs from parents;
- when reading the Secretary’s Report in context, the concession on the parity of subsidy principle was made under a difficult economic climate. It was therefore logical to believe that this was only a temporary arrangement to help tide over the difficulties at that time; and
- as the proposed reduction or withdrawal of subsidies to the ESF involved a substantial change to the subvention policy and would have implications on many parties, it should only be proceeded with after extensive consultation with stakeholders. However, the ESF parents had not been consulted throughout the process.

14. **Mr Alex CHIU, Parents Representative, ESF**, shared Dr Rigby’s view that ESF parents should be consulted as the proposed withdrawal of subsidies had far-reaching implications on ESF parents.

15. The **Deputy Secretary for Education and Manpower** pointed out that if the parents were not satisfied with the ESF’s approach for handling the proposed withdrawal of government subsidies, they could have requested a review of the issue by the Foundation at its subsequent meetings. However, the issue had not been further raised at any of the subsequent meetings of the Foundation.

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16. The **Chairman, ESF** said that:

- as the “ESF subvention” issue had not been placed on the agenda of the Foundation meeting on 14 December 2000 as an item for discussion, it should not be taken to mean that the proposed reduction or withdrawal of recurrent government subsidies to the ESF had been deliberated and endorsed by the Foundation;
- since the Government’s proposal to reduce or withdraw its subsidies to the ESF was a very important issue, it should not have been buried in the Secretary’s Report. It should have been put up separately for open discussion by all stakeholders; and
- although the 6% pay cut proposal was very moderate, it had triggered a strong reaction when it was considered at a Foundation meeting. Hence, she did not believe that the proposed withdrawal of government subsidies to the ESF, if discussed at the Foundation meeting on 14 December 2000, could have been passed so smoothly.

17. In response to the Committee’s enquiry, the **Acting Secretary and Chief Executive, ESF** informed the Committee that:

- although the Foundation had not discussed the parity of subsidy principle and the possible withdrawal of government subsidies, the issues had been discussed by the ExCom at two of its meetings on 7 March 2000 and 5 April 2000; and
- apart from the ExCom meetings, there was ongoing discussion of the issue among the Chairman, the Vice-Chairman, the Treasurer and the Chief Executive of the ESF.

18. The **Acting Secretary and Chief Executive, ESF** then referred the Committee to Appendix B to the Audit Report, which provided a summary of the exchange of views between the EMB and the ESF on the Government’s proposed withdrawal of recurrent subsidies to the ESF. He stated that:

- in late 1999, the ESF suggested that the Government should allow the ESF to modify its land lease conditions so that it could redevelop its school sites and expand its services. This would facilitate the ESF in generating income to compensate for the withdrawal of government subsidies;

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- on 22 February 2000, the EMB stated that some commercial developments were necessary within the framework of any changes in the usage of ESF sites. A summary of the relevant discussion on 22 February 2000 between the EMB and the ESF was provided in the ESF Chief Executive's letter of 16 March 2000, in *Appendix 13*;
- in his letter of 13 April 2000, in *Appendix 14*, the Secretary for Education and Manpower informed the ESF that the Government would have difficulties in agreeing to the ESF's proposed redevelopment of the Borret Road site if it was no longer required for educational purposes;
- based on the above, it was clear that the understanding reached between the EMB and the ESF about the proposed withdrawal of subsidies involved reciprocal undertakings by the Government to review the ESF's ability to use its properties to generate additional income. The EMB's inability to support its undertaking in this regard had made it more difficult for the ESF to cope with the proposed withdrawal of subsidies;
- as a result, the Chief Executive of the ESF informed the EMB, via her letter of 15 January 2001 in *Appendix 15*, that:
 - (a) unless a radical scheme was envisaged to involve commercial use of ESF leading school sites, it was highly unlikely that sufficient revenue could be raised to replace the one-third of the ESF's costs covered by government subsidies; and
 - (b) it was not the time to embark on the scheme on commercial use of ESF school sites in view of the political sensitivity and the property market condition at that time; and
- the discussion between the EMB and the ESF on the arrangement for phasing out government subsidies had virtually been brought to an end by the ESF Chief Executive's letter of 15 January 2001.

19. The **Chairman, ESF** added that the discussion between the EMB and the ESF over the years on the future of government subsidies to the ESF was never concluded and that the ESF was an integral part of the local education system. The ESF's position on the parity of subsidy principle remained unchanged and it should be entitled to government funding as other schools in the aided sector.

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20. The Committee noted from the ESF Chief Executive's letter of 16 March 2000 that the Chairman of the ESF had emphasised that the phasing-out programme should stretch over a period of 13 years. As this proposed arrangement was raised by the former Chairman of the ESF, the Committee invited him to provide in writing the reasons for and the circumstances leading to his agreement to this arrangement.

21. In his reply of 17 January 2005, in *Appendix 16*, **Mr Jal Shroff, former Chairman, ESF** advised that:

- to the best of his knowledge, there was no firm agreement with the Government that the parity of subsidy principle be forgone and that the withdrawal of subsidies be phased out over a period of 13 years. If there had been such an agreement, the matter would have been resolved;
- his understanding was that he had in discussion with a representative of the EMB who suggested that a way to resolve the issue was for the EMB to phase out the subsidies over a period of 13 years plus modification of all the ESF's land lease conditions so that it had the option to redevelop some of its school sites commercially to generate additional income to make up for the loss of revenue from the subsidies; and
- he believed that there was a reasonable chance for the Foundation and the ExCom to accept the above arrangement as a "fair" solution. However, as the EMB was not in a position to agree to the modification of land lease conditions, as far as he could remember, the discussion did not continue.

22. The **Permanent Secretary for Education and Manpower** stated at the hearing and the **Secretary for Education and Manpower** stated in the letter of 24 January 2005, in *Appendix 17*, that:

- as the full programme of ESF education lasted 13 years, the 13-year phasing out programme suggested by the ESF would ensure that existing parents would not be affected by the change and that notice could be given to new parents;
- the 13-year withdrawal programme was not dependent on the proposed land lease modification. As clearly illustrated by the exchange of views between the EMB and the ESF in 2000 and 2001, the Government shared the ESF's view that the withdrawal of subsidies should be properly managed with a reasonable transitional arrangement, which should comprise a basket of

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measures such as expansion of the ESF's services, reduction of its cost base and redevelopment of its school sites. Land lease modification was only one of the several possibilities mooted;

- the EMB was willing to allow time for the ESF to operate more kindergartens as this kind of education business had great potential for development. This would be conducive to the ESF generating more income to facilitate its operation under a self-financing mode;
- as a measure to reduce its overall unit cost, the ESF was also encouraged to operate private independent schools. Nevertheless, the Secretary for Education and Manpower had made clear to the ESF, in his letter of 13 April 2000, that the approval of the application for a private independent school was independent of the proposal to phase out government subsidies to the ESF;
- regardless of whether there had been proper consultation within the ESF about the proposed withdrawal of subsidies, the Chief Executive of the ESF had clearly acknowledged in her letter of 15 January 2001 that the parity of subsidy principle had been forgone following the freeze of the per-class subsidies with effect from the 2000-01 school year. The only trigger for revisiting the issue was when inflation threatened the ESF's viability. Logically, this trigger did not justify disowning the agreement to forgo the parity of subsidy principle especially when, after years of deflation, the prevailing price level remained significantly lower than that in 2000;
- the concession on the parity of subsidy principle took place after the Secretary for Education and Manpower had conveyed, via his letter of 13 April 2000, to the ESF the Government's reservation about land lease modification. In other words, the explicit agreement to forgo the parity of subsidy principle was made in the clear knowledge of the non-feasible nature of lease modification;
- the Government had been pursuing the subvention review with goodwill, taking into account the possible impact on the ESF and its stakeholders. That was why, despite its principled approach, the reduction in government subsidies to the ESF had been rather mild notwithstanding the fiscal deficit. The Government had been exercising utmost care in ensuring that the review and any changes arising from it must be consistent with students' best interest and must abide by the law; and

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- in the EMB's view, the focus of the discussion was not on "whether" recurrent government subsidies should be withdrawn, but rather "how" the withdrawal should be phased. The EMB had been conscientiously pursuing the subvention review through frequent discussions with the ESF over the past few years, and would expedite action to complete it.

23. The **Deputy Secretary for Education and Manpower** supplemented that:

- the ESF enjoyed preferential treatment not only vis-à-vis international schools but also private independent schools and direct subsidy schools. Under the existing arrangement, private independent schools were not provided with recurrent government subsidies whereas direct subsidy schools were subject to various regulatory monitoring by the EMB. However, in the case of the ESF, it was provided with recurrent government subsidies but was not subject to the EMB's regulatory monitoring;
- another example of preferential treatment was that, among the various types of schools, only ESF schools were allowed to convert up to 50% of the capital grant into a loan to enable them to meet the larger cash-flow requirements in their school building projects; and
- the EMB considered that the existing subvention arrangement for the ESF was an anomalous historical legacy, which should be revisited in the present-day context, having regard to the development of a vibrant international school sector outside the ESF system.

24. In paragraph 2.22(b) of the Audit Report, the ESF provided a number of reasons to justify that its schools were different from international schools and that it was an integral part of the local system. In view of the historical context of the provision of subvention to ESF schools, the Committee enquired whether the Government would consider continuing its recurrent subsidies to ESF schools.

25. The **Secretary for Education and Manpower** responded that:

- it was the Government's responsibility to ensure optimal and appropriate use of public money. In view of the many problems and deficiencies in the governance and management of the ESF, the ESF should undertake a rigorous reform expeditiously to achieve the level of transparency and accountability required of a leading education institution. The EMB considered this an overriding priority over the subvention issue; and

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- ESF schools received recurrent government subsidies as local aided schools but were not subject to the same monitoring by the EMB. This was not a reasonable arrangement. If the ESF continued to fail to adopt a high standard of governance and management, the Government would have no alternative but to reduce or withdraw the existing subsidies, in order to safeguard public money.

26. **Dr Sarah Rigby** said that:

- the overriding issue was whether English-speaking children of Hong Kong should be entitled to a subvented education as other local children under the parity of subsidy principle;
- the English-speaking children in Hong Kong nowadays were very different from those in the old colonial days, as a large proportion of the former were permanent residents of Hong Kong and considered themselves as “Hong Kongers”. The Government should consider how this group of English-speaking children were to be catered for in the local school system; and
- from a macro perspective, the Government might consider adopting a voucher system to enable parents to select a school of their choice for their children with the amount of subsidy provided under the system.

27. The **Permanent Secretary for Education and Manpower** and the **Deputy Secretary for Education and Manpower** said that:

- the Government provided equitable access to nine years’ free and universal primary and junior secondary education to all children in the relevant age groups. There were schools which used English as the medium of instruction to cater for the needs of English-speaking children who wished to follow the local curriculum;
- for some reasons, such as parents’ preference for the pedagogy of a school, some parents chose to leave the local system which offered free education and to enter the private school sector at their own cost; and
- in the case of ESF schools, a majority of their students were local people. They chose to leave the local school system to join the ESF. In fact, the Government had already reserved school places for this group of students in the local system.

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28. **Dr Sarah Rigby** said that:

- there were very few primary and secondary schools within the local school system which used English as the medium of instruction. These schools were incredibly competitive in view of the limited places they offered. Many children would not fit into the local school system because of their lack of competency in Chinese. For example, some parents found that, upon their return to Hong Kong after emigrating overseas for a number of years, it was difficult for their children to re-integrate into the local school system;
- the ESF offered an affordable high quality education in the medium of English with an international dimension, which perfectly met the needs of middle-class English-speaking families. Some students whose families were on a budget might be forced to leave the ESF should there be significant increase in the school fees after the removal of government subsidies; and
- at present, the ESF had a total of some 12,000 students. If the government subsidies to the ESF were to be removed and a great number of these students had to leave the ESF because of financial problems, it would be a considerable task for the Government to work out how such a large group of students were to be integrated into the local school system.

29. The **Deputy Secretary for Education and Manpower** responded that the EMB would discuss the needs of English-speaking children with the new ESF Chief Executive after she assumed office in February 2005. In fact, there were some encouraging cases in which foreign students had successfully adapted to the environment of local direct subsidy schools.

30. The Committee enquired whether the Government would consider providing subsidies to the ESF in other forms, e.g. subsidies under the Direct Subsidy Scheme, so that the Government might exercise regulatory monitoring over ESF schools.

31. The **Permanent Secretary for Education and Manpower** replied that:

- a school would be denied subsidies under the Direct Subsidy Scheme if its school fees were beyond two and one-third of the average unit cost of an aided-school place. It appeared that the ESF was not eligible for the Scheme as its current school fees were much higher than the permitted level of school fees under the Scheme; and

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- the Code of Aid as applied to aided schools governed, among other things, teacher-to-student ratio, appointment and dismissal of staff, implementation of school-based management structure, use of premises, and so on. She did not consider this a suitable mode for ESF schools.

32. The **Secretary for Education and Manpower** said that the EMB would adopt an open mind in discussing with the new ESF Chief Executive, once she assumed office in February 2005, the way forward in respect of the future subvention arrangement for the ESF. The review might lead to no change, a reduction or an increase in government subsidies to the ESF.

33. The **Chairman, ESF** said that the ESF welcomed monitoring by the Government. She stressed that the ESF had demonstrated its resolve to achieve greater transparency and accountability. This was evidenced by its putting forward a proposal of restructuring its governance and management, which had been approved by the Foundation in December 2004. A timetable for implementing the proposed restructuring had also been drawn up.

34. According to paragraph 2.23(g) of the Audit Report, the EMB believed that through enhancing cost-efficiency, ESF resources could be saved without erosion of education quality or increase in tuition fees. The Committee asked about the basis of the EMB's statement.

35. The **Secretary for Education and Manpower** explained that:

- the statement was made on the basis of the calculations made by the EMB. The EMB noticed that there were wide concerns on fee increase among ESF parents. Some ESF staff had been quoted to have repeatedly suggested that withdrawal of government subsidies would automatically mean a 40% increase in the current fee level. This was grossly misleading. Such a causal relationship between subvention and the fee level could only be made if all of the following happened:
 - (a) the ESF intended to charge parents for every dollar of subsidies forgone;
 - (b) the ESF considered that there was absolutely no room for efficiency savings despite economy of scale; and

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(c) the ESF did not intend to undertake any improvement measures pursuant to the observations of the Audit Commission (Audit); and

- the EMB hoped that none of the above was true. In the EMB's view, the cost-effectiveness of the ESF, rather than government subvention, had a greater impact on the level of its tuition fees.

36. The **Acting Secretary and Chief Executive, ESF** said that:

- in 1994, the ESF instituted a fee policy that aimed to minimise fee increases whilst maintaining high-quality education;
- over the last six years, ESF school fees had increased only once, by less than 5%. This track record had been achieved during a period when government subsidies had been frozen or reduced. By comparison, some international schools had raised their school fees by 30% over the same period;
- the ESF had produced two charts showing its fee increases compared with other fee-paying institutions over the last six years. The charts were included in the ESF's submission of 10 December 2004, in *Appendix 18*; and
- as a subvented organisation, the ESF had been mindful of the need to provide affordable education in line with its mission of serving Hong Kong people.

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37. **Hon Frederick MA Si-hang, Secretary for Financial Services and the Treasury**, declared that his two daughters had attended an ESF school.

38. The Committee noted from paragraph 3.7(c) of the Audit Report that in February 2000, the Financial Services and the Treasury Bureau (FSTB) had expressed reservations about the Government exercising discretion to freeze the number of subsidised ESF classes, without reverting to the Finance Committee (FC) of the Legislative Council.

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39. Paragraph 3.8(a) of the Audit Report further revealed that subsequently, the FSTB advised the EMB in July 2004 that, on balance, it was not necessary for the EMB to seek the FC's approval in respect of the proposed arrangement to freeze the number of ESF classes eligible for recurrent government subsidies as from the 2004-05 school year. In this connection, the Committee asked about the reasons for the FSTB's change of view.

40. **Ms Bernadette LINN, Principal Assistant Secretary for Financial Services and the Treasury (Treasury)**, replied that:

- the FSTB's view in paragraph 3.7(c) of the Audit Report aimed to alert the EMB that the FSTB would have reservations if the Government unilaterally froze the number of subsidised ESF classes in future without reverting to the FC;
- the FSTB's advice stated in paragraph 3.8(a) of the Audit Report was made on the basis that:
 - (a) the EMB's proposed arrangement to freeze the number of ESF classes eligible for recurrent government subsidies as from the 2004-05 school year had been agreed with the ESF; and
 - (b) the proposed arrangement did not pose any conflicts to the funding approval given by the FC on 17 December 1980; and
- since the proposed arrangement was only a transitional measure pending the finalisation of permanent changes to the subsidy arrangement in the near future, the FSTB considered that it was not necessary for the EMB to seek the FC's explicit approval for such arrangement.

41. According to paragraph 3.10 of the Audit Report, Audit considered that if the EMB did not envisage that permanent changes to ESF subsidy arrangements could be finalised in the near future, the EMB should seek the FC's approval for freezing the ESF per-class subsidies. Since the EMB's arrangements for freezing ESF per-class subsidies and capping the number of ESF classes eligible for recurrent government subsidies were at variance with the Government's parity of subsidy principle for providing government subsidies to ESF schools, the Committee enquired whether, from a financial policy perspective, the FSTB agreed to Audit's view that the EMB should seek the FC's approval.

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42. The **Secretary for Financial Services and the Treasury** said that the Government would ensure that all financial proposals that required the approval of the FC were submitted to it for consideration in accordance with the requirements under the Public Finance Ordinance.

43. The **Secretary for Education and Manpower** said that the EMB would work closely with the ESF to expedite the review. It would revert to the relevant authorising bodies with concrete proposals on the long-term funding arrangement for the ESF and the way of implementing the arrangement as soon as a decision on the issue had been taken.

44. The Committee noted from paragraph 3.14 of the Audit Report that the fact-finding exercise jointly conducted by the EMB and the ESF, which was originally scheduled for completion in July 2003, had still not yet been completed.

45. In response to the Committee's enquiry, the **Acting Secretary and Chief Executive, ESF** said that:

- as almost half of the ESF senior executive management posts were vacant in the past year, the tight manpower had made it difficult for the ESF to meet the target for the fact-finding exercise; and
- as there were still quite a number of contentious areas that had to be addressed, the ESF would work closely with the EMB to expedite completion of the exercise upon completion of the work associated with the three audit reviews concerning the ESF.

46. The **Deputy Secretary for Education and Manpower** said that:

- the objectives of the fact-finding exercise were to review the cost structure of the ESF and to identify possible areas for savings, with a view to assessing whether the current rate of ESF tuition fees and government subvention were fully justified. This exercise demanded tremendous efforts of both parties. As the EMB did not have direct access to ESF files and records, it needed to rely on the ESF to provide information for completing the exercise;

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- unfortunately, the latter stage of the exercise coincided with a tumultuous period of the ESF during which its Chairman and a number of its senior staff including the Chief Executive had resigned, it was understandable that the Acting Secretary and Chief Executive had experienced a lot of work pressure; and
- as the audit findings provided a very useful reference to the Government, the importance of the fact-finding exercise was not as high as that at the time when the EMB first conducted the exercise.

47. Conclusions and recommendations The Committee:

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- notes that:
 - (a) government subvention to the English Schools Foundation (ESF) on the parity of subsidy principle was premised on the 1965 Education Policy White Paper in recognition of the need for English schools for English-speaking children, which led to the establishment of the ESF in 1967 through the enactment of The English Schools Foundation Ordinance;
 - (b) similar to private international schools, ESF schools follow a non-local curriculum and their students do not sit for local examination. However, ESF schools are provided with recurrent government subsidies whereas private international schools do not receive the same level of subsidies from the Government, even after the Government's review of its subsidies to international schools in 1995;
 - (c) since 1999, the Education and Manpower Bureau (EMB) has been discussing with the ESF the gradual reduction of its recurrent subsidies to the ESF under a phased programme. The ESF has indicated its willingness to work with the Government for a smooth transition, but has emphasised that the phasing-out programme should stretch over a period of 13 years;
 - (d) the EMB considers that the focus of its discussion with the ESF was not on "whether" recurrent government subsidies to the ESF should be withdrawn, but rather "how" the withdrawal should be phased; and

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- (e) it is the ESF's view that the discussion between the EMB and itself over the years on the future of government subsidies to the ESF was never concluded and that it is an integral part of the local education system. Its position on the parity of subsidy principle remains unchanged and it should be entitled to government funding as other schools in the aided sector;
- expresses concern that there is a divergence of views between the EMB and the ESF on whether ESF schools are no different from private international schools and whether the existing government subsidies to the ESF schools should continue;
- strongly urges:
 - (a) the EMB to expeditiously complete the review of government subsidies to the ESF; and
 - (b) the EMB and the ESF to come to an agreement expeditiously over the future of government subsidies to the ESF;

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- expresses serious concern that:
 - (a) the EMB's arrangements for freezing ESF per-class subsidies and capping the number of ESF classes eligible for recurrent government subsidies are at variance with the Government's parity of subsidy principle for providing government subsidies to ESF schools; and
 - (b) the fact-finding exercise jointly conducted by the EMB and the ESF, which was originally scheduled for completion in July 2003, has not yet been completed;
- notes that:
 - (a) the EMB has reported to the Panel on Education of the Legislative Council the progress of its review of government subsidies to the ESF; and
 - (b) the EMB and the ESF will expedite completion of the fact-finding exercise;

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- recommends that the Secretary for Education and Manpower should:
 - (a) seek the authorisation of the Executive Council and the Legislative Council for the interim measures on providing recurrent government subsidies to the ESF if changes to ESF subsidy arrangements cannot be finalised in the near future; and
 - (b) seek the approval of the Executive Council and the Legislative Council for changes resulting from the EMB's review of government subsidies to the ESF; and

Follow-up actions

- wishes to be kept informed of:
 - (a) the progress of the EMB's review of government subsidies to the ESF;
 - (b) the progress made by the EMB and the ESF in reaching an agreement over the future government subsidies to the ESF; and
 - (c) the results of the fact-finding exercise.