

## **For Information**

### **LEGISLATIVE COUNCIL PANEL ON EDUCATION**

#### **Information Note on the Review of the Subvention Arrangement for the English Schools Foundation**

#### **PURPOSE**

The Administration has been reviewing the subvention arrangement for the English Schools Foundation (“ESF”). Although discussions with the ESF are still on-going, we would like to keep Members posted of the relevant background and latest developments. Hence this Information Note for Members’ reference.

#### **BACKGROUND**

2. The ESF was established in 1967 and is now directly operating 10 primary schools, five secondary schools and one special school. Most of these schools offer a British curriculum and they jointly accommodate over 12,000 students who account for around half of the student population in Hong Kong’s international schools. A full list of these schools is at **Annex A**. With one exception<sup>1</sup>, all these schools receive recurrent subsidies calculated on a per-class basis. In the 2003-04 financial year, about \$308 million was provided to the ESF.

#### Subvention Arrangement With The ESF

3. Government subvention to the ESF was premised on the Education Policy White Paper published in 1965 (“the 1965 White Paper”) which states that “[where] such education [for English-speaking children] was more costly than the type of education provided for the majority, the difference in cost should be passed on to those who enjoyed these particular standards of provision, so that the general level of subsidy remained the same in all sections of the community.”

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<sup>1</sup> The only school not receiving recurrent subsidies from Government, i.e. Bauhinia School, is meant to be merged into a Private Independent School allocated to the ESF upon completion, which would by policy have to operate on a self-financing basis.

4. This is commonly known as the “parity principle” which formed the then basis for the calculation of Government subsidies for the ESF. Taking into account changes over the years, the existing provisions of subsidies to the ESF are summarized at **Annex B**. A gist of the two major reviews conducted in 1979 and 1995 is separately given at **Annex C** for reference.

### The ESF In Our School System

5. Within the education system in Hong Kong, schools may be categorized with reference to their curriculum, specific funding status, student intake autonomy and modus operandi, generally as (i) Government, aided and caput schools; (ii) schools under the Direct Subsidy Scheme; (iii) Private Independent Schools; (iv) ESF schools; and (v) private international schools<sup>2</sup>. A brief comparison of these school categories with the ESF is set out at **Annex D**. It can be noted that, apart from access to recurrent Government subsidies and more generous capital assistance, ESF schools and international schools have little substantive difference.

### **NEED FOR THE 1999 REVIEW**

6. We recognize the historical context of the provision of subvention to ESF schools. In the early days, the education needs of English-speaking children in Hong Kong used to be met by Government operated schools. In 1965, the Administration published the 1965 White Paper which among other things recognized the need for English schools for English-speaking children, but considered that it should not be met by Government-operated schools. This led to the incorporation of the ESF in 1967 through the enactment of the English Schools Foundation Ordinance (Cap 1117), which was introduced into LegCo by an unofficial member, and the start of Government subvention.

7. In the 1960s, the local school system was far less established and well-developed than it is now. There was also a lack of international education services in Hong Kong catering for the expatriate (then predominately English) community. Other than a few government

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<sup>2</sup> Local private schools, which offer local curriculum but are self-financing, also form an important school category in Hong Kong. Nevertheless, since they do not receive Government subsidies (recurrent or capital), they are not elaborated in the context of this paper.

junior schools and the King George V School which were later transformed into ESF schools, there was only one private international school at the time the ESF was established. Noteworthy is that the government of the day agreed to subsidise ESF education in the British curriculum for meeting the prevailing needs of the entire foreign community<sup>3</sup> at the time.

8. Over the past few decades, Hong Kong has seen robust economic growth and an ever intensifying international character, coupled with an increasing expatriate population flowing in from different countries. Concomitant with this is the significant expansion of the provision of private international school places covering a variety of overseas curricula. Meanwhile, our local school system has progressively achieved nine-year compulsory education for all and further provides heavily subsidized senior secondary education for all those who are willing and able to pursue further studies. There is also a growing diversity in school funding, curriculum offered and modes of operation.

9. ESF schools are similar to private international schools in Hong Kong, both in terms of the curriculum offered and student mix. The fact that the ESF receives recurrent Government subsidies and capital construction grant, whereas private international schools do not, has led to calls for rationalisation of the existing subvention policy to restore a level playing field.

## **SALIENT DEVELOPMENTS**

10. A mutual understanding was reached in 1999 between the Administration and the ESF on the need to review the subsidy and to freeze the subvention rate for the ESF at the 1999/2000 school year level with effect from the 2000/01 school year. The freeze was meant to be an interim measure, pending a mutually acceptable long term agreement on the subvention arrangement.

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<sup>3</sup> According to the 1965 White Paper, the British curriculum was considered appropriate to the expatriates then residing in Hong Kong –

*“... We agree that the general system of education provided for Chinese-speaking children does not meet the special requirements of overseas parents. In the special circumstances of Hong Kong, where the majority of overseas parents are British and where many other overseas parents appear satisfied with the British system of education, we agree that education provided for English-speaking children should be similar in content and method to that available in state schools in Britain ...”*(underlining added)

11. In tandem with the implementation of the above interim measure, the ESF has embarked on attempts to make itself more self-financing. For example, efforts were made to review the remuneration packages of staff and there was an expansion of the education business of the ESF Educational Service Limited, a subsidiary of the ESF.

12. Despite the above, review of the existing subvention and remuneration arrangements have met with inertia in the ESF community. To expedite the matter, we started in early 2003 a joint fact-finding exercise with the ESF to look into its cost structure, which will serve as an objective basis for assessing the cost-efficiency of its operations and identifying possible areas for savings. Progress was slow, and the exercise coincided with a tumultuous period for the ESF, which saw the departure of its Chief Executive in June 2003, resignation of its Chairman, Vice Chairman and Treasurer in early 2004, etc.

13. As always, in pursuing any new policy initiative, we are mindful of its possible impacts on various stakeholders and would seek to devise a pragmatic package, with necessary transitional arrangements to address the concerns of various parties as far as possible. In this case, we recognise the ESF's contractual commitments to its staff and the expectations of parents who have already sent children to ESF schools. Such sensitivity to the concerns of stakeholders explains our cautious approach.

#### Efficiency Savings

14. Meanwhile, separate from and without prejudice to the 1999 Review, we have, in line with the continuous demand from the public for efficiency enhancement and as part of the Government-wide concerted efforts to balance the books by the 2008-09 financial year, requested the ESF to deliver its fair share of efficiency savings as one of the operationally autonomous bodies in the education sector. The specific savings measures include –

- (a) The total recurrent Government subsidies were adjusted downwards by 1.8% from 1 April 2003 to 31 December 2003;
- (b) The total recurrent Government subsidies were adjusted downwards by 4.8% (inclusive of the 1.8% adjustment in inset (a)) from 1 January 2004 to 31 March 2004;

- (c) The total recurrent Government subsidies were adjusted downwards by 6.44% (inclusive of the 4.8% adjustment in inset (b)) from 1 April 2004 to 31 March 2005; and
- (d) Starting from the 2004/05 school year, additional ESF classes over and above the number of subvented classes operated in the 2003/04 school year level would not be provided with recurrent Government subsidies.

15. In pursuing these efficiency savings measures, we hope that the cuts would be absorbed internally within the ESF. So far, the ESF has done so without passing any costs onto parents and the tuition fees remain at \$47,300 per annum (at primary level) and at \$78,600 per annum (at secondary level).

#### Way Forward

16. In April 2004, at the request of the ESF, the Audit Commission has started a VFM audit on the ESF. We shall take into account the Audit findings in determining the way forward. We would also continue to keep Members posted of significant developments, and seek due authorization upon the completion of the Review.

**Education and Manpower Bureau  
Government Secretariat  
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## **Annex A**

### **Schools Operated by the English Schools Foundation**

#### **Primary Schools**

1. Bauhinia School \*
2. Beacon Hill School
3. Bradbury School
4. Clearwater Bay School
5. Glenealy School
6. Kennedy School
7. Kowloon Junior School
8. Peak School
9. Quarry Bay School
10. Sha Tin Junior School

#### **Secondary**

11. Island School
12. King George V School
13. Sha Tin College
14. South Island School
15. West Island School

#### **Special school**

16. Jockey Club Sarah Roe School

\* As it was meant to be merged into a Private Independent School allocated to the ESF upon its completion, which would by policy have to operate on a self-financing basis, Bauhinia School does not receive recurrent subsidies from Government.

## **Existing Subsidies for the ESF**

### **Recurrent Subsidies**

- ♦ Basic Grant: This comprises teaching and non-teaching staff salaries, based on the “actual” salaries as calculated on the prevailing aided schools salary structure, provident fund, general operating expenses, major repairs, furniture and equipment. It is determined on the basis of the number of classes and the notional subsidy per class payable to standard-size aided secondary and primary schools, adjusted to take into account the difference in class size between ESF and local schools.
- ♦ Hardship Grant: Noting the compulsory education policy for local children up to the age of 15 or the completion of Form III, and being concerned that no child should be debarred from school because of his parent’s inability to pay the school fees, the ESF is now given a specific grant for the relief of hardship cases. The amount of this Hardship Grant payable to the ESF amounts to 2% of the Basic Grant at primary level and 3% at secondary level.
- ♦ Curriculum Development Grants (or Subject Grant): The same rate applies for all eligible curricula as in the aided sector.
- ♦ Rates and Government Rents Reimbursement: Full reimbursement applies.

### **Capital Subsidies**

- ♦ Capital Subsidies: The ESF is offered a choice between the two options of –
  - (a) Receiving a full capital grant amounting to construction cost of a standard public sector school of the same student population; or
  - (b) Converting half of the grant into an interest-free loan of which the notional compound interest forgone equals to the amount of the converted portion of the grant.

**Points to Note**

- ♦ Jockey Club Sarah Roe School, which is the only special school under the ESF, receives Government subsidies in the same mode as other ESF schools but with reference to other aided special schools. It falls outside the scope of the 1999 Review.



### Past Reviews of the ESF Subvention Arrangement

#### Review in 1979

- ♦ Need for Review: In 1973, in implementing the parity principle, a formula was developed for the calculation of grants payable to ESF schools. In the Director of Audit's Report issued in March 1978, it was observed that the general level of subsidies paid to an ESF school exceeded the average of the subsidies paid to two aided schools for Chinese-speaking children (of similar size and class structure) by approximately 18%<sup>4</sup>. The ESF also desired for higher standard provisions in its schools.
- ♦ Changes Arising from the Review: The following changes have been made as a result of the Review –
  - (a) The recurrent grant to the ESF should be based on the notional subsidies per capita payable to standard-size aided primary and secondary schools.
  - (b) The calculation of the recurrent grant should be increased by a grossing-up factor of 17.6% for both primary and secondary students to provide for a much greater fluctuation in the number and distribution of students attending English-speaking schools compared to other public-sector schools.
  - (c) There should be provision for relief of hardship for ESF primary and secondary students. This should be calculated on 2% and 3% of the basic grant to ESF primary and secondary schools respectively.

#### Review in 1995

- ♦ Need for Review: In early 1995, in response to LegCo Members' queries on the higher per capita subsidies for ESF students and better

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<sup>4</sup> The primary factor was that the level of enrolment maintained by the ESF schools was well below that of the two aided schools.

capital subsidy arrangements for ESF schools, an internal working group was established to look into the matter. It was found that the average unit subsidy for ESF schools was higher than that for aided schools<sup>5</sup>.

- ♦ Changes Arising from the Review: The following changes have been made as a result of the Review –
  - (a) The basis for recurrent subsidies should be changed from a per capita basis to one based on the number of classes, adjusted to take into account the difference in class size between ESF schools and local aided schools. In the calculation of new subsidies, the current grossing-up factor should be removed but the hardship grants retained.
  - (b) In line with the practice of the aided sector, the capital subsidies should be based on 100% of the construction cost of a standard local aided school adjusted downwards to take into account the smaller enrolment in ESF schools plus a professional fee and related cost (16%).
  - (c) As a variation and in order to enable ESF schools to meet the larger cash-flow requirements in their school building projects, ESF schools should be allowed to convert up to 50% of the capital grant into an interest-free loan at no overall additional cost to the Government.

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<sup>5</sup> The difference was mainly due to a larger salary grant, the grossing-up factor and the hardship grant.

**The ESF in the School System in Hong Kong – A Brief Comparison**

	<b>Schools under the English Schools Foundation</b>	<b>Aided Schools</b>	<b>Schools under the Direct Subsidy Scheme</b>	<b>Private Independent Schools</b>	<b>Non-profit Making Private International Schools</b>
<b>Government subsidy for construction of school premises</b>	<p>May be provided with:</p> <ul style="list-style-type: none"> <li>◆ Capital grant for construction of school premises<sup>6</sup>.</li> <li>◆ Up to 50% of the capital grant may be converted into an interest-free loan, the amount of which will be such that the notional compound interest foregone is equal to the amount of the capital grant to be converted.</li> </ul>	<p>May be provided with:</p> <ul style="list-style-type: none"> <li>◆ Capital grant for construction of school premises; or</li> <li>◆ Government-built standard design school buildings for lease.</li> </ul>	<p>May be provided with:</p> <ul style="list-style-type: none"> <li>◆ Capital grant for construction of school premises<sup>6</sup>; or</li> <li>◆ Government-built standard design school buildings for lease.</li> </ul>	<p>May be provided with:</p> <ul style="list-style-type: none"> <li>◆ Capital grant for construction of school premises<sup>6</sup>.</li> </ul>	<p>May be provided with:</p> <ul style="list-style-type: none"> <li>◆ Interest-free loan for construction of school premises<sup>7</sup>.</li> </ul>

<sup>6</sup> The amount of the capital grant equals to 100% of cost for building a standard-design public sector school of the same student population.

<sup>7</sup> The amount of the interest-free loan (repayable in 10 years) equals to 100% of cost for building a standard-design public sector school of the same student population.

	<b>Schools under the English Schools Foundation</b>	<b>Aided Schools</b>	<b>Schools under the Direct Subsidy Scheme</b>	<b>Private Independent Schools</b>	<b>Non-profit Making Private International Schools</b>
<b>Recurrent subsidies</b>	<p>Reimbursement of rates and Government rents.</p> <p>Recurrent subsidies calculated on a per class basis at a rate now frozen at the 1999/2000 school year level<sup>8</sup>.</p>	<p>Reimbursement of rates and Government rents.</p> <p>Recurrent subsidies calculated on a per class basis.</p>	<p>Reimbursement of rates and Government rents.</p> <p>Recurrent subsidies calculated in terms of the average unit cost of an aided school place for each eligible student enrolled and its operating history<sup>9</sup>. Non-local students will not be eligible for DSS subsidy.</p>	<p>Reimbursement of rates and Government rents.</p> <p>(No other form of recurrent Government subsidies.)</p>	<p>Reimbursement of rates and Government rents.</p> <p>(No other form of recurrent Government subsidies.)</p>

<sup>8</sup> A 6.44% reduction applies on the total recurrent subsidies for efficiency savings purposes.

<sup>9</sup> Under the subsidy formula, a school will be denied of the DSS subsidy if its school fees are beyond two and a third (2 1/3) of the average unit cost of an aided school place. For example, in the 2003/2004 school year, the DSS subsidy we provide at secondary three level for schools at / over 16 years of age is \$31,552 per student, which is calculated in terms of the average unit cost for an aided school place at secondary three level. Accordingly, for a secondary three student of a DSS secondary school at / over 16 years of age –

- (a) If the school fees charged exceed two and a third (2 1/3) of the average unit cost, i.e.  $\$31,552 \times 2 \frac{1}{3} = \$73,621$ , no subsidy will be provided to the DSS school in respect of the student concerned.
- (b) Otherwise, a subsidy of \$31,552 will be provided.

	<b>Schools under the English Schools Foundation</b>	<b>Aided Schools</b>	<b>Schools under the Direct Subsidy Scheme</b>	<b>Private Independent Schools</b>	<b>Non-profit Making Private International Schools</b>
<b>Application of Code of Aid</b>	No applicable Code of Aid.	Code of Aid applies <sup>10</sup> .	Subject to audit inspection by EMB.	No applicable Code of Aid.	No applicable Code of Aid.
<b>Financial assistance to students</b>	Hardship grant provided by Government at 2% and 3% of the basic grant for primary and secondary schools respectively.	Means-tested assistance provided by Government.	<p>Fee remission / scholarship schemes administered by individual schools, with their own funds / income.</p> <p>As a requirement, for every dollar of tuition fees charged over and above 2/3 of the average unit cost for an aided school place, 50 cents should be set aside by schools for this purpose, subject to a minimum remission equivalent to 10% of the fees<sup>11</sup>.</p>	<p>Fee remission schemes administered by individual schools, with their own funds / income.</p> <p>As a requirement, not less than 10% of fee income should be set aside by schools for this purpose.</p>	Fee remission schemes administered by individual schools, with their own funds / income.

<sup>10</sup> The Code of Aid governs, amongst other things, appointment and dismissal of staff; implementation of school-based management structure; tendering and purchasing procedures; use of premises; conditions on the use of various types of grants; and audit inspection by EMB, etc.

<sup>11</sup> For example, for a DSS school at / over 16 years of age charging \$40,000 per school place (in the 2003/2004 school year), it has to set aside about \$9,483 per school place (i.e. \$40,000 – \$31,552 x 2/3) x 50%) for fee remission purposes.

	<b>Schools under the English Schools Foundation</b>	<b>Aided Schools</b>	<b>Schools under the Direct Subsidy Scheme</b>	<b>Private Independent Schools</b>	<b>Non-profit Making Private International Schools</b>
<b>Curriculum</b>	Mostly UK-based curricula.	School-based curriculum developed on the basis of the local curriculum recommended by EMB.	Free to design the curriculum, but must prepare students for local public examinations.	Free to design the curriculum <sup>12</sup> .	Non-local curricula.
<b>Student admission</b>	Admission at full discretion of the schools.	Admission in accordance with the relevant admission systems – <ul style="list-style-type: none"> <li>- P1: “Primary One Admission System”</li> <li>- S1: “Secondary School Places Allocation System”; and</li> <li>- S4: “Junior Secondary Education Assessment System”.</li> </ul>	Admission in accordance with the class structure approved by EMB.  Admission criteria should be transparent. Only local children are entitled to DSS subsidy.	Admission in accordance with the school development plan agreed by EMB.  At least 70% of the students must be Hong Kong permanent residents.	Admission at full discretion of the schools.  For schools receiving land grant at nominal premium from Government, at least 50% of the students should belong to the target group it serves, as the school has publicly stated.

<sup>12</sup> In allocating a private independent school, preference will be given to school which will incorporate Chinese language, Chinese history / culture in their curriculum.