



英基學校協會
ENGLISH SCHOOLS FOUNDATION

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Your Ref : CB(3)/PAC/CS(42&43)

Mr Colin Chui
Clerk, Public Accounts Committee
Legislative Council Building
6 Jackson Road
Central
Hong Kong

Dear Mr Chui,

Follow-up to Public Accounts Committee Report No. 43
English Schools Foundation
Corporate Governance and Headquarters Administration and School
Administration

Thank you for your letter of 11 January 2006.

I am pleased to attach an updated progress report on the English Schools Foundation's actions in response to Public Accounts Committee Report No.43 together with a summary of the key areas of work which you have highlighted.

Yours sincerely,

Heather Du Quesnay
Chief Executive

Att

cc Director of Audit
Principal Assistant Secretary, Education and Manpower Bureau

**Progress Report
on the English Schools Foundation's Actions
in response to Public Accounts Committee Report No. 43**

(a) Review of the role of the Foundation Office

1. Background

1.1 An independent consultancy, Boyden Management Consulting, was commissioned to conduct a review of the Foundation Management Office in April 2005.

1.2 Boyden's procedure included :

- a review of key documents, including organisation charts, budgets, agendas and minutes of meetings;
- meetings with 39 individuals, including Principals, teachers, members of School Councils and the Executive Committee and Foundation Management office staff;
- focus group discussions with Principals.

2. Conclusions

2.1 Boyden's conclusion was :

- there is need for an FMO but its functions need to be repositioned in order to be more effective and efficient
- it would cost the schools more if they were to run the desired FMO functions individually; and
- a much more valuable or desirable FMO is possible through maintaining, or ultimately reducing its current size and spending.

2.2 The supporting arguments included :

- the need for such a large group of schools to have strategic direction and a vision for the future;
- the importance of a coherent and recognisable educational mission, shared among the schools and led by the Education Development TEam at the Foundation Management Office;
- the desirability of maintaining standardised terms and conditions of service for staff and offering a rich programme of professional development;
- the economies of scale which arise which arise from centralised services, and which allow the Principals and leadership teams of schools to give priority to educational issue.

2.3 They recommended two possible management structures, one for the long-term and one for immediate implementation. They emphasised the need for

certain new posts to improve strategic planning and management capacity but proposed a reduction in basic clerical and administrative posts. The cost of the management structure proposed for immediate implementation is HK\$42.1 million, a marginal (1.4%) increase over the current structure. The cost of the Foundation Management Office represents only 4% of the total budget of ESF, a similar proportion to 2004/05 despite an increase of 376 in student numbers.

3. Action Taken

3.1 Management Structure

The Senior Management Team has been re-structured to include a communications officer (to replace external consultantS) and a manager with responsibility for parent and student services including admissions and alumni.

3.2 New appointments have been made to the posts of Finance Director and Human Resources Director. Both of these postholders are very experienced managers, with a respected track record, mainly in private sector businesses.

3.3 The new Directors are re-structuring their departments in order to streamline them and introduce modern management practices and information technology systems. This work is partially complete and will be finalised in the next 3 months.

3.4 Administration of Staff Housing

A tendering process is in place to enable the administration of staff quarters to be out-sourced to the private sector. There is considerable interest from private sector companies.

3.5 Entertainment Allowances

A clear policy on Entertainment Allowances has been agreed by the Executive Committee which prohibits staff entertainment being charged to expenses. Claims are scrutinised rigorously and rejected if they do not conform to policy.

3.6 Budget Delegation

The decision has been made to increase to 15% the proportion of the schools' budget delegated to schools themselves. Further work will take place on decentralisation in the coming year.

3.7 Admissions

Central coordination of the admissions process has been introduced to allow for greater flexibility in the school zones. By adjusting slightly the boundaries of the zones we have been able to ensure that all children with English as a first language and non-Cantonese speaking children with a second language have offers of places for Year 1, as well as offering places to a significant number of English-speaking children who have some Cantonese. For Year 7, there are waiting lists which we are monitoring carefully from the Centre.

(b) Remuneration of Teachers

1. Background

- 1.1 The Executive Committee established a Remuneration Study Group in 2004 to gather information about the remuneration of English Schools Foundation teachers. Independent remuneration consultants were also commissioned to assemble the data and advise on an appropriate methodology.
- 1.2 It was decided that comparisons should be made between ESF and key other groups : international schools in Hong Kong; schools in other parts of Asia; state schools in England; and state schools in Australia.
- 1.3 The Remuneration Study Group published its findings in July 2005, and the Executive Committee instructed the newly appointed Human Resources Director and the Chief Executive Officer to develop proposals for a new remuneration package, which were issued for consultation in September 2005.
- 1.4 Following consultation, the Executive Committee agreed certain amendments to the package to meet some key concerns raised by teachers.

2. Action Taken

- 2.1 The revised remuneration package agreed by the Executive Committee on 25 October 2005 resulted in a reduction of HK\$ 68.9m or 9.2% to the teachers' remuneration package.
- 2.2 The detailed changes are as follows
- a reduction of 5% in basic pay from September 2006;
 - gratuity will be reduced by 5% from 2007;
 - a cash allowance of HK\$7,000 per month will be introduced to replace the housing allowance (quarters have not been offered to teachers since 2000);
 - the budget for Incentive Allowances will be reduced by 33% and new management structures will be introduced from September 2007 to enable the abolition of Incentive Allowances;
 - a Performance Management Scheme will be piloted from January 2006 and fully implemented from September 2006;
 - 5 compulsory Continuing Professional Development days will be introduced;
 - the supply teacher budget will be reduced by 45%;
 - overseas benefits such as return airfares and baggage allowances will be discontinued after one more contract (a small number of General Contract holders are excepted because of legal requirements);
 - steps will be taken to harmonise certain benefit such as housing and medical allowances to make them more fair.

3. Follow-Up

- 3.1 New contracts were issued on 30 November 2005 to 335 teachers whose contracts were due to expire on 31 August 2006. The new contracts included the revised remuneration package.
- 3.2 As of 20 January 2006, 292 teachers have accepted new contracts. A total of 88 have resigned either through choice or because they (or their partners) have reached retirement age. The turnover figure of 10.86% is only slightly in excess of that recorded at the same time last year (10.18%).
- 3.3 Throughout this process, teachers have continued to carry out their full range of duties in schools, including participating in continuing professional development; planning for the introduction of the International Baccalaureate diploma in Secondary Schools; and extra-curricular activities.

(c) **Corporate Governance**

1. Background

- 1.1 The Executive Committee established a task force to review the governance of ESF early in 2005.
- 1.2 The task force developed a framework of principles for reforming ESF governance, which was approved by the Foundation on 29 June 2005.
- 1.3 Since then a law draftsman has been commissioned to undertake the detailed drafting of an Amendment Bill, to be introduced to Legco as a private member's bill, to revise the English Schools Foundation Ordinance. The draftsman has also been working on accompanying Regulations.
- 1.4 We are currently consulting Foundation members and stakeholder groups, including parents, on the details of the Ordinance and Regulations. We expect to seek the final approval of the Foundation in the spring.

2. Key Features of ESF's Governance

2.1 Corporate Level

- the Foundation of 133 members is abolished and replaced with a Board of Governors numbering 25;
- the Executive Committee which is a source of confusion between governance and management, will be abolished;
- the Board has a majority of independent members and only 3 employee members plus the Chief Executive Officer as ex-officio and non-voting;
- 6 parent members will be elected by secret ballot by the body of parents;
- there will be 2 places for Legco members;

- the Board will have an Audit Committee, a Remuneration Committee (on which there will be no employee representation); and a Finance Committee;
- Advisory Committees will ensure that the views of all key stakeholder groups (School Council Chairmen, Principals, teachers and support staff) are taken into consideration.

2.2 Schools

- School Councils will be retained and their powers will be enhanced;
- the relationship of the powers of the School Council to those of the Board will be clearly described;
- the role, responsibilities and accountability of the School Principal will be described clearly.

2.3 General

Provision will be made for :

- a Code of Conduct to ensure that members of the Board, its Committees and School Councils, declare any interest;
- replacing members who do not attend regularly;
- regular public reports on educational standards and on the accounts to ensure transparency.
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	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end September 2005)	Complete
1.	Corporate governance					
	a. Conduct a review on the role of the Foundation Office including the need for its continued existence;	ESF agrees. Chief Executive Officer will review the management of the Foundation Office	Review: April-June 2005 for the Executive Committee (ExCom) to consider in June 2005, and implementation in September 2005.	ExCom		Completed 5 July 2005. Report was published in September 2005. Implementation in progress. New Management Team in place Jan 2006.
	b. Adopt measures to ensure that external members will constitute a majority at each of the respective meetings of the Foundation and the ExCom;	This is agreed and formed the basis of the work of the Governance Task Force.	Agreed in principle by Foundation Meeting on 9 December 2004.		Review of Governance : Majority of independent members will be required at Board Meetings. ExCom will be abolished.	Amendment Bill to Ordinance and Regulations being drafted. Majority of independents included.
	c. Issue reminders to the related organisations if the attendance rates of their representatives at Foundation meetings are low;	Agreed: reminder will be issued before Foundation meetings	By June 2005.		Review of Governance : Members who do not attend will be deemed to have resigned.	Incorporated in new Regulations Jan 2006.

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	<p>d. Amend the Regulations of the English Schools Foundation to the effect that ESF staff members of ExCom would abstain from voting on matters concerning ESF staff benefits at its meetings;</p> <p>e. Consider repealing section 10(2) of The English Schools Foundation Ordinance so that subsidiary legislation in the form of regulations made under the Ordinance is required to be published in the Gazette and tabled in the Legislative Council (LegCo);</p>	<p>To be considered by Governance Task Force</p> <p>To be considered by Governance Task Force</p>	<p>Governance Reform Task Force to consider (b), (d) and (e) by April 2005 and to publish a consultation paper by May 2005. Foundation to consider the reform in June 2005.</p>	<p>ExCom</p>	<p>Review of Governance : Board members will be required to declare any interest and not to vote on a matter in which they are direct beneficiary.</p> <p>New Remuneration and Terms and Conditions Committee will not have staff members.</p> <p>Revised Regulations will be presented to LegCo at the same time as the amendments to the Ordinance. Expected timing : 2005-06 legislative session through a private member's bill to LegCo.</p>	<p>Code of Conduct incorporated in new Regulations Jan 2006.</p> <p>Incorporated in new Regulations 2006.</p> <p>New Ordinance omits Section 10(2).</p>

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	<p>f. Ensure that its internal audit office is staffed by well qualified and experienced personnel reporting directly to the audit committee; and</p> <p>g. Required its internal audit office to prepare annual audit programmes, to be approved by the audit committee, for conducting reviews covering major and high-audit-risk activities of the ESF, including the ESF Educational Services Limited.</p>	<p>The ExCom of the Foundation accepts that the ESF's governance should be reviewed with a view to ensuring that it is in line with the best practices</p>	<p>Actioned – Audit Committee approved by ExCom at the meeting held on 23 November 2004. The first meeting of the Audit Committee was on 7 December 2004. It has since met KPMG, the external auditor, and had substantive discussions with management on 17 December 2004 and 7 January 2005.</p>	<p>ExCom</p>	<p>Proposed Audit Plan (internal and external) was placed before Audit Committee in September 2005.</p>	<p>(f) Done</p> <p>(g) Done</p>

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end September 2005)	Complete
2.	<p>Financial Management</p> <p>a. Take action to reduce its net current liabilities; and</p> <p>b. Adopt a more prudent method of budgeting and avoid relying on bank overdraft.</p>	<p>The ESF has stated that:</p> <p>(a) the ExCom of the Foundation will continue to carefully:</p> <p>(i) monitor ESF budgets and current liabilities;</p> <p>(ii) determine prudent limits to borrowing; and</p> <p>(b) no commercial organisation would deny itself access to credit which can help maximise value for shareholders.</p>	<p>ExCom reviewed this recommendation when it reviewed the First Stage Estimates 2005-06 at the meeting of 22 March 2005.</p>	<p>ExCom</p>	<p>Done. Each budget paper covers this.</p> <p>Ongoing</p>	<p>Done.</p>

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end September 2005)	Complete
3.	<p>Staff remuneration and recruitment</p> <p>a. The ESF should take into consideration Audit's findings on the remuneration of the teaching staff of the seven largest private international schools, and immediately conduct a review of the remuneration packages of its senior staff with a view to ensuring that they are broadly in line with those of similar posts in other local educational organisations;</p> <p>b. The membership of the RSG should not be drawn from ESF's own teaching and non-teaching staff;</p>	<p>The ESF has established a Remuneration Study Group (RSG) to conduct a review of remuneration packages in local international schools and in countries from which we recruit</p> <p>The ESF has stated that the remuneration packages of its senior staff:</p> <ol style="list-style-type: none"> 1. have been reviewed by its Pay Review Body; and 2. will be within the purview of its RSG <p>The ESF has stated that RSG's membership was agreed by ExCom and reflects the need for transparency for all stakeholders. ExCom will decide on pay levels.</p>	<p>(a) Actioned (regarding the establishment of RSG)</p> <p>RSG to report in July 2005.</p>	<p>RSG/ExCom</p> <p>ExCom</p>	<p>First stage review has been completed in July 2005. Further report will be made to ExCom in early autumn of 2005.</p> <p>Consultation with staff in September/October 2005. First stage of changes will be incorporated in contracts from November 2005.</p> <p>A new independent Remuneration Committee will be established.</p> <p>RSG will be invited to continue as a reference group only.</p>	<p>Remuneration review implemented Nov 2005.</p> <p>New Regulations specify independent Remuneration Committee Jan 2006.</p>

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end September 2005)	Complete
	<p>c. The ESF should implement as soon as possible new remuneration packages on newly recruited teaching staff, and on existing teaching staff over a period of time, taking into account the effects of the new remuneration packages on their financial commitments; and</p>	To be considered by RSG	(c) Actioned (regarding the establishment of RSG)	RSG/ExCom	To be implemented from November 2005 over a 2-year period.	Action taken Nov 2005 covering both new and existing staff.
	<p>d. Asks the ESF to forward the report of the RSG to the Committee. The Committee will then invite the Director of Audit to review the report and to inform the Committee of his comments.</p>	Agreed	RSG to forward their report to the PAC in June 2005.	RSG/ExCom		Consultant's and HR Director's reports are confidential. Details of the decisions on remuneration are included in the Progress Report to PAC of 20 Jan 2006.

Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end September 2005)	Complete
<p><u>Urges the ESF to:</u></p> <p>a. record, if given, the approval of the ExCom in its meeting minutes regarding extra payments to ESF senior staff upon their leaving the ESF;</p> <p>b. enter all minutes of ExCom meetings in its minute books;</p> <p>c. refrain from delegating to any person the authority to agree on the terms of cessation of a senior staff member without the approval of the ExCom; and</p> <p>d. ensure that the approval of the ExCom is obtained before making extra payments to its senior staff upon their leaving the ESF.</p>	<p>The ESF agrees with the audit recommendations in paragraph 4.32. The ESF has stated that:</p> <p>(a) in the past, the agreement of the Chief Executive of the ESF and the Chairman/ Vice-chairman of the Foundation was sought before making extra payments to ESF senior staff upon their leaving the ESF for contractual or confidentiality reasons; and</p> <p>(b) it will record the approval of the ExCom of the Foundation in its meeting minutes regarding extra payments to ESF senior staff upon their leaving the ESF, if this does not infringe legally binding agreements.</p>	<p><u>Actioned</u> – 17 December 2004.</p>	<p>ExCom</p>		<p>Done December 2004</p> <p>Done Dec 2004</p> <p>Done Dec 2004</p> <p>Done Dec 2004</p>

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end September 2005)	Complete
4.	<p>Staff housing and medical benefits</p> <p>a. Consider offering housing allowance to its staff instead of providing staff quarters;</p> <p>b. Strictly adhere to the maximum monthly rent entitlement of its staff; and</p> <p>c. Recommends that the ESF should formulate a policy and a plan for disposing of its surplus staff quarters.</p>	<p>The ESF agrees with the audit recommendations in paragraph 5.14. The ESF has stated that: it has taken action in respect of the audit recommendations in paragraph 5.14(a), (b) and (c). In the 2004-05 ESF financial year, three newly-appointed principals, whose predecessors were previously accommodated in ESF-leased quarters, have been allocated with ESF-owned quarters.</p> <p>The ESF has stated that: the ExCom of the Foundation will review carefully the audit recommendation in paragraph 5.31(a), having regard to the long-term needs of the ESF and the financial security conferred by the ownership of such fixed assets.</p>	<p>Audit recommendations in paragraph 5.14 (a) to (c) Actioned (for new staff).</p> <p>To submit a paper in respect of audit recommendations in paragraph 5.31(a) and (b) to ExCom by June 2005.</p>	<p>ExCom</p> <p>ExCom</p>	<p>Actioned for new staff</p> <p>Benefits for existing staff will be considered in the remuneration review.</p> <p>Revised data to be ready by December 2005.</p>	<p>Done</p> <p>Done</p> <p>Review to be undertaken following completion of Remuneration Review Nov 2005.</p>

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end September 2005)	Complete
5.	<p>Entertainment expenses</p> <p>Recommends that the ESF should set up a new system so that only designated staff of the ESF may submit claims for reimbursement of entertainment expenses on a need basis.</p>	<p>The ESF has stated that: the ExCom of the Foundation will consider the audit recommendations in paragraph 7.13(a), (b) and (d) as part of a further review of entertainment expenses. The present ESF arrangement for setting annual individual budgets for entertainment expenses only applies to 22 ESF designated staff out of a total of 1 218 ESF staff.</p>		HRD	Paper to be completed by October 2005	Policy agreed by Excom and published Dec 2005.

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end September 2005)	Complete
1.	<p>Strategic planning, budgeting and cash management</p> <p><u>Urges the ESF to require its schools:</u></p> <p>a. which do not have a bidding system for assessing the funding needs of their departments to adopt such a system for budget allocation purpose; and</p> <p>b. to establish formal policies and control procedures on virements of funds between budgets.</p>	<p>Guidelines on school development planning will be produced through a working group to assist schools in their planning.</p>	<p>The Education Director (EDD) to establish a group to provide guidance by 30 June 2005.</p>	<p>EDD</p>		<p>Completed June 2005. Written guidance on development planning issued to Academic Committee on 17 June 2005</p>
2.	<p>Human resources management, other income and support</p> <p><u>Urges</u></p> <p>ESF to devise a mechanism for awarding salary increments to its staff.</p>	<p>The ESF agrees in principle with the audit recommendation and has stated that 74% of ESF staff are on the maximum incremental point.</p>	<p>Implementation of this recommendation is dependent on the future introduction of the proposed Performance Development Plans for staff.</p>	<p>HRD</p>	<p>To be considered as part of the Remuneration Plan.</p>	<p>Incentive Allowances to be abolished and Modern Management Structures to be introduced. Policy to be in place Jul 2006.</p>