

**For information**

**Legislative Council Panel on Education**

**11EE – Redevelopment of Kowloon Junior School  
at Perth Street, Homantin, Kowloon**

In response to the issues raised at the Panel meeting of 13 December 2010, the supplementary information relating to and arising from the redevelopment project of the Kowloon Junior School (“KJS”) is provided below.

**Future use of the Rose Street school premises**

2. Upon completion of the redevelopment of the KJS, the school premises at Rose Street will be vacated and the English Schools Foundation (“ESF”) has undertaken to return the to-be-vacated premises together with the site to the Government for disposal. In anticipation of increasing demand for public sector primary school places in Sham Shui Po district in the coming few years, we plan to earmark the Rose Street premises for local primary school use. We will confirm the future use of the premises after consulting relevant government departments and should there be no other competing uses, we would conduct technical feasibility study and carry out necessary upgrading or redevelopment works to ensure that the premises is fit for use before allocation to interested school operators through open bidding.

**ESF’s capital development plan and use of ESF’s reserve fund**

3. We have made clear to the ESF that notwithstanding the prevailing policy on capital grant for ESF schools, we will examine the merits of any capital project proposal from the ESF on a case-by-case basis. Given the potential significant capital outlay to meet the cost of any future capital projects and to provide for the sustainability of ESF

schools, it is necessary for the ESF to formulate a prudent capital development plan having regard to the educational needs of students, the financial situation of the ESF and the views of parents and stakeholders. Against this, the ESF has, as part of its reform measures, formulated a long-term financial strategy for the renewal of its building stock and established a Major Building Projects Committee to monitor the major construction projects for reporting to its Board of Governors. In the case of the KJS, the ESF has agreed to pay a total amount of \$220.5 million in September 2010 prices on top of the capital grant from the Government for non-standard facilities of the project by utilizing its own existing funding resources as well as proceeds from the Refundable Capital Levy (“RCL”) Scheme to be introduced in the 2011/12 school year. Apart from the KJS redevelopment project, the ESF has earmarked around \$247 million from its funding resources as well as proceeds from the RCL for the expansion project of the King George V School which involves mainly provision of non-standard facilities and no capital grant will be provided from the Government. The ESF has consulted parents and other stakeholders on the two redevelopment projects and held public meetings prior to the introduction of the RCL. The ESF has also undertaken that it would be accountable to parents on the future usage of the RCL and its proceeds to support the capital projects.

4. As explained by ESF on previous occasions, the “reserve” as shown in the General Reserve Account in ESF’s audited accounts only reflects the past investment in fixed assets and current assets minus liabilities. As such, it is a book figure and does not represent cash available to spend. The General Reserve account covers the 15 schools operated by the ESF. In the 2009/10 school year, the total amount of reserve stood at \$823 million, of which the majority is fixed assets such as buildings, furniture and equipment after deducting liabilities. The level of cash was only \$314 million, which was maintained at no more than 25% of the total annual operating expenditure of the ESF, i.e. slightly over \$1.2 billion a year.

## **Adjustments of school fees**

5. Fee adjustments by ESF schools are subject to the approval of the Education Bureau under Regulation 65 of the Education Regulations. Factors which have been considered in examining ESF's application for fee increase include, inter alia, -

- (i) explicability of the case;
- (ii) benefits to students;
- (iii) sound financial planning;
- (iv) affordability of the educational service, including the level of reserves; and
- (v) engagement with parents and others stakeholders in soliciting support and address their concern.

6. In considering the fee adjustment application by the ESF, the Education Bureau has also attached importance to the "test of due process", including its consultation with stakeholders on the fee proposal. As such, we note that the ESF's Board of Governors, which has a wide representation, has discussed and reached consensus on the recent fee adjustment proposal. The ESF has engaged parents and other stakeholders in the process of explaining the fee increase proposal at various committees under its governance structure such as the Committee of Parents and the Committee of School Council Chairmen, which represents individual School Council whose membership includes parents, teachers and community representatives. In addition, the ESF has issued letters to parents explaining the rationale behind the fee increase and the new education initiatives to be undertaken for the benefits of students and funded from the fee increase.

7. The school fees of the ESF between 2001/02 and 2010/11 school years are set out at the Annex.

## **Preliminary work plan for the review on the subvention arrangements for the ESF**

8. Following the enactment of the ESF (Amendment) Ordinance 2008, the ESF has established its Board of Governors and various Committees and by now put in place a series of financial reform measures under its governance structure. It is an appropriate time now to commence formal discussion with the ESF on the subvention review. To prepare for the review, we have commenced initial exchanges with the senior management of the ESF with a view to mapping out the scope of the review, the issues to be addressed, and the principles and policy considerations based on which the review should be conducted. The issue of whether or not the present mode of subvention should continue and other related matters would be examined in the context of subvention review, having regard to the provision of education services by the ESF under present day circumstances. Specifically, the review will cover a number of areas including the ESF's role and positioning, its service targets, financial management and fee-related arrangements.

9. We would work closely with the ESF on the review in the coming months. The ESF would separately engage its stakeholders through its established process. We plan to report the progress of the review, in particular on the policy considerations underpinning the review, the mode of subvention, if any, and the related scheme of control, to this Panel by the end of the current legislative session.

### **Financial arrangements between the ESF and the ESF Educational Services Limited ("ESL")**

10. The ESF's response to the issues raised in the above aspect is provided as follows -

- (a) The ESL is a non-profit making organization set up under the ESF and run by the common management with the ESF. Based on the advice of an independent auditor and legal counsel, the ESF and ESL entered into a Development and Operating Agreement ("the Agreement") in 2006 and an Explanatory Memorandum in

2007 in relation to the two Private Independent Schools (“PISs”) operated by the ESL at Ma On Shan and Discovery Bay. The Agreement was discussed and endorsed by the former Executive Committee of the ESF where parents and other stakeholders such as teachers and staff were represented.

- (b) As stipulated in the Agreement, the ESF should construct, fit out and complete the two PISs, the cost of which added up to around \$278 million. In return, there is an agreement that the repayment by the ESL would be made within 20 years. Total payment received by the ESF up to 2009-10 is \$41.6 million and another \$15.6 million will be repaid in 2010-11. The ESF has held two public meetings to brief parents on the financial arrangements and has uploaded the relevant materials onto their website for parents’ information.

**Education Bureau**  
**January 2011**

**Annex****School fees of the ESF between 2001/02 and 2010/11 school years**

<b>School Year</b>	<b>Primary level</b>	<b>Secondary level</b>	
	<b>(\$ per student per annum)</b>	<b>(\$ per student per annum)</b>	
	Year 1 - 6	Year 7 - 11	Year 12 - 13
2001/02	47,300	78,600	
2002/03	47,300	78,600	
2003/04	47,300	78,600	
2004/05	47,300	78,600	
2005/06	47,300	78,600	
2006/07	51,500	82,600	
2007/08	54,300	85,000	
2008/09	58,100	89,250	
2009/10	58,100	89,250	
2010/11	61,000	93,000	94,000