

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

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

(Continued Session)

Speaking Notes for the SEM

Chairman,

Thank you for allowing me to speak again before this Committee resumes its hearings on Chapter Four of the Audit Report.

2. During the hearings on 10 December, some Members blamed the Administration for not monitoring the English Schools Foundation (“ESF”). Such criticisms are unfounded and I feel obliged to make a response to put things in perspective, for the purpose of a fair and informed discussion.

The ESF’s Obligation and the Administration’s Role

3. The ESF is established by law and enjoys the powers and privileges bestowed by the English Schools Foundation Ordinance (Cap 1117). The ESF Foundation is the supreme governing body within the ESF establishment. Its membership comprises representatives from a wide cross-section of the community, including government officials, whose role was intended to be advisory, to allow the ESF the benefit of the views of different community sectors. Had it been envisaged that the Government should play a watchdog role, the Ordinance would not have been introduced by a private Member, and the Government would have been given the necessary statutory powers to direct and monitor the operation of the ESF.

4. For historical reasons, EMB has one representative on the ESF Executive Committee. This is a unique arrangement, not repeated in other school sponsoring bodies receiving government subvention. The purpose is for liaison and advice. Indeed, it is an established and widely-accepted policy that the Administration should refrain from micro-management.

5. This notwithstanding, since late 2002 when we suspected significant cost effectiveness problems within the ESF, we have stepped up

our attention to ESF operation, both inside and outside the ESF Executive Committee. One example is the fact-finding exercise which we initiated in early 2003. Members should all have been provided with the draft report of this exercise and I shall not explain the depth and breadth of our work. We could proudly say that we have done our part diligently. Understandably, without the same legal right to access ESF archives, we are unable to unearth the mismanagement to the same extent as the Director of Audit. But gratifying to note is that most if not all observations we made have been generally shared by the findings of the Director of Audit.

The Responsibilities of the ESF Executives

6. Years of impartial and conscientious examinations of public accounts have earned the Public Accounts Committee much community respect. For this respect to continue, a fair evaluation of the ESF Executives' role in ensuring ESF's cost effectiveness must not be missed. To be fair to my colleagues, and more importantly, to be fair to all ExCom and Foundation members, I must elaborate on what should have been the reasonable expectations of the ESF Executives and part-time ExCom and Foundation members serving on an honorary basis.

ESF Headquarters Administration

7. I am quoting one of the most glaring mismanagement examples in this Audit Report, i.e. the three golden handshake packages recently offered by the ESF to its senior staff. We have carefully reviewed the minutes of the meetings when the ExCom was apprised of the departure of the three senior staff. We confirm that *only in one case*, that of Staff A, was the ExCom consulted on the extra payment made. At that time, the ExCom was told that the resignation was accepted "in accordance with the Conditions of Service" and I stress, "in accordance with the Conditions of Service". In other words, the ExCom was not informed that it should indeed be the resigned officer who should have paid the compensation to the ESF for the short notice given for his departure. In respect of Staff B and C, the ExCom was only informed of their resignation. No mention of payment was ever made. For Staff C, whose resignation took immediate effect, we did ask the ESF for details but in vain. We became aware of the golden handshake for him through an anonymous letter issued to the press several months afterwards. In respect of the payment to Staff B, if not for the report of the Director of Audit, I am afraid that EMB, and I presume other ExCom members, would still be kept in the dark. And frankly, we do not know whether similar cases exist.

8. To put it mildly, I was surprised at the last PAC hearing that some

Members attributed the ESF's wastefulness to be the responsibility of EMB. Members seemed to have mis-interpreted the problem and picked the wrong target of attack. We have been participating in the ESF ExCom on the basis of trust and cooperation. For an organization which has repeatedly emphasized the outstanding calibre of its staff, and with a successful business person in the chair, would Members consider it reasonable that we should, at each and every one of the monthly ExCom meetings, *take the initiative* to ask if for the last month, there had been any golden handshake proposals, any inappropriate payments of entertainment, medical and dental allowances or any claim for taxi fare that was not supported by receipts? How could the ESF ExCom function if it were pre-occupied with this kind of micro operational matters? And, more fundamentally, should the onus not be on the ESF Executives to bring up for the ExCom's approval cases which merit exceptional treatment not in line with established policies and financial management rules? Do they not have the duty to furnish all necessary background information to enable the ExCom to make an informed decision?

ESF School Administration

9. The same applies to school administration. At the last PAC hearing, some Members criticised EMB for not doing anything about the school whose council had not met for almost two years. Let me state the facts. Just as in the case of aided schools, EMB is *not* represented on any ESF school councils. How would EMB know if the problem was not even reported to the ExCom? But in accordance with the ESF Regulations, the Chief Executive of the ESF or his representative sits on *every* school council. Should we rather ask what has the ESF Headquarters done? What should be the role of the ESF management in the first place? Why has it kept the ExCom in the dark? We simply could not see any case for blaming the Administration.

10. If Members indeed consider it reasonable that EMB should micro-manage given the recurrent subsidies we pay to the ESF, then I must caution that the same, if not more stringent, level of control must apply to all aided schools, which are almost completely funded by the Government, as well as subvented organizations in general. This clearly goes against the existing policy of school-based management and represents a move from outcome monitoring to input control and micro-management of subvented organizations.

11. In EMB, there are only six officers, from Assistant Education Officer to Permanent Secretary, with varying degrees of involvement with the ESF, amongst their many other responsibilities, whereas the ESF

Headquarters has a staffing establishment of over 50 persons working full time. Here, I have not included the administrative staff working in ESF schools, again working full time.

Value-for-Money Measurement by Quality

12. Last but not least, ESF has deployed the quality argument, namely its academic achievements, to defend its costs. I must say, golden handshake, unsatisfactory school administration, inappropriate entertainment allowances are not necessary bedfellows of quality education. In other words, wastefulness does *not* necessarily come with quality education. To put the quality question in proper perspective, we should compare like with like. If Members are so interested, I would suggest that Members enquire about the public examination results and the teacher qualifications of the other local international schools to see if they fare significantly worse than the ESF.

13. We appreciate that ESF schools have taken on students having special education needs. Therefore, the provision for Sarah Roe School, the special school operated by ESF, has been consciously insulated from the review on subvention arrangement. For Members' information, local public sector schools are also shouldering their fair share in providing education to children with Special Education Needs. These children form an average of 14% of the student body within the aided sector.

14. Chairman, I must reiterate that we are not seeking to belittle ESF's contribution to Hong Kong's education. Overall, its students are doing fine, its schools are doing fine, and its teachers are doing fine. However, its management, and if I may say so, its senior executive management and its governance, are lagging behind public expectation of a modern organisation. We should focus on value for money and governance. There must be proper checks and balances in the ESF to ensure cost-effective use of resources, transparency of operation and accountability of outcome.

15. Before this Committee, Chairman, is a 37-year old historical legacy. ESF's governance and management problems did not start yesterday. I urge Members to tackle the root of the problem and place responsibility where it should lie. Only by doing so could this Committee uphold its credibility and maintain its objectivity. All along, the Government has had high regard for this Committee and would continue to play our modest part to contribute to an impartial hearing.

16. Thank you, Chairman.