For discussion
on 9 July 2013

Legislative Council Panel on Education

Review on the subvention arrangement for the English Schools Foundation

Purpose

This paper reports the review of the subvention arrangement for the English Schools Foundation (ESF) and the arrangement for the phasing out of the existing subvention as agreed with ESF.

Background

2. Established in 1967 under the ESF Ordinance (Cap. 1117), the ESF at present directly operates nine primary schools, five secondary schools and one special school. It receives annual recurrent Government subsidies of about $278 million (position as at the 2012-13 financial year) with around 12 850 students as at September 2012, accounting for about 37% of the international school students in Hong Kong. In addition to an annual recurrent subvention, the ESF also receives capital subvention in the form of capital grant or interest-free loan from the Government.

3. Report No. 43 of the Director of Audit released in November 2004 pointed out the preferential treatment of the ESF over other similar international schools and recommended that the historical reason for the subvention had to be re-visited in the present day context. With the enactment of the ESF (Amendment) Ordinance 2008, the ESF has established its Board of Governors and various Committees. It has also set in train a series of reform measures to improve its governance and corporate management. This has paved the way for resumption of the discussion on the subvention review since early 2011.

4. We reported the Government's consideration and the ESF's position on the subvention review to the Legislative Council (LegCo) Panel on Education at its meeting of 11 July 2011. Members generally agreed that the role and positioning of the ESF needed to be reviewed having regard to the present day circumstances of the school sector but Government subvention for the ESF should not be withdrawn at the moment and the

existing ESF students should not be affected by any changes to the subvention arrangement.

Agreed phasing out arrangement

5. Following our last report to the LegCo Panel on Education in July 2011, we have been engaging in active dialogue with the ESF to take forward the review with a view to establishing the unique position of the ESF in the entire school system, if any, taking into account the development of the school sector and the arrangements for schools which operate in a like-fashion in terms of governance and oversight mechanism, admission policy, curriculum and student mix etc.. We have also invited the ESF to make proposals on its services and initiatives premised on its uniqueness vis-à-vis other types of schools and to demonstrate how it could complement the Government's policy and be re-positioned as our service agent so as to merit Government subsidy. Guided by the policy objectives and

A parameters set out at Annex A, we have reviewed the proposals and worked out the phasing out arrangement.

6. After intensive negotiations over the past year, the Board of Directors of the ESF formally accepted the following arrangement for the phasing out of the government subvention for the ESF at its meeting on 18 June 2013 –

(a) the existing recurrent subvention amounting to $249.7 million (position as at the 2012-13 financial year) a year for ESF's mainstream primary and secondary schools will be maintained for three more years from the 2013/14 school year until the 2015/16 school year, when the phasing out of the recurrent subvention will commence in the 2016/17 school year (please see paragraph 6(b) below), to ensure that prospective students including those who are now studying in ESF kindergartens (with a study duration of two years) and those to be admitted to the kindergartens in the 2013/14 school year would not be affected;

(b) the annual recurrent subvention to the ESF will be phased out in 13 years at an average amount of $19.2 million per year starting from the 2016/17 school year until the 2028/29 school year. The progressive withdrawal of the recurrent subvention should not constitute a ground for any upward revision of the tuition fees for cohorts already in ESF primary and secondary schools;

(c) no new recurrent subvention will be provided to the ESF upon the phasing out of the existing subvention;

(d) the existing recurrent subvention of $28.3 million a year for students with special education needs (SEN) in ESF's mainstream schools as well as the special school, the Jockey Club Sarah Roe School (JCSRS), will be excluded from the phasing out arrangement and frozen at the current level pending further review; and

(e) on the basis of the existing policy applicable to the ESF and subject to the funding approval by the Finance Committee of the LegCo, a capital grant which equals to 100% of the cost for constructing a standard-design public sector school for the same students population should apply to the Island School's application for redevelopment or reprovisioning. After this case, the policy regarding financial assistance to ESF's school construction projects will be aligned with that for other international schools, under which no financial support except an interest-free loan with a ten-year repayment period for construction of schools on greenfield sites will be provided by the Government.

Government's consideration

(A) A "3+13-year" phasing out arrangement

7. The international school sector has experienced significant changes since the ESF was established in 1967. In addition to the 14 primary and secondary schools operated by the ESF, there are now another 34 international schools in the community providing similar curriculum for very similar student mix. Our prevailing policy is to support the development of a vibrant international school sector for meeting the demand for international school places from overseas families coming to Hong Kong for work or investment through the provision of greenfield sites at nominal premium, vacant school premises at nominal rental and interest-free loans for development of allocated greenfield sites, and other facilitation measures. No recurrent subsidy is provided. Hence, the ESF, being the only international school operator receiving government recurrent subvention, flies in the face of our established policy of not providing any recurrent subsidy to schools mainly running non-local curriculum.

8. In line with Members' earlier views that any change to the subvention arrangement should not affect existing ESF students, the existing

recurrent subvention to the ESF should be phased out very gradually over a duration of not less than 13 years in order not to prejudice the interest of existing students who had been admitted to ESF schools. Taking into account the interests and expectation of key stakeholders, including parents of ESF's kindergarten students most of whom are likely to be admitted into ESF primary schools, the phasing out period is extended with a view to insulating all students in the ESF system (kindergartens, primary and secondary levels) in the 2013/14 school year from the impact of the subvention reduction.

9. Under the "3+13-year" phasing out arrangement, the recurrent subvention will remain the same for the first three years from the 2013/14 school year to the 2015/16 school year. The recurrent subvention will then be reduced at an average rate of $19.2 million every year[1] over a duration of 13 years from the 2016/17 school year until the 2028/29 school year. In return, the ESF has committed that cohorts already in the ESF primary and secondary schools before the phasing out starts in the 2016/17 school year will continue to benefit from the government subvention and their tuition fees would not be raised due to the progressive withdrawal of the recurrent subvention. The ESF estimates that the tuition fee for new students admitted to ESF primary and secondary schools with effect from the 2016/17 school year may need to be increased by about 23.5% in order to fully cover the reduction in subvention[2]. The ESF will however work out the proposed tuition fee nearer the time after taking into account all relevant factors, including ESF fees vis-à-vis other international schools, market situation, inflation, efficiency savings, if any and so on.

(B) ESF's role in the present day school sector

10. We have reviewed a number of proposals submitted by the ESF on provision of education for the English-speaking community and those with SEN, Chinese programme for non-Chinese speaking students, professional training for teachers, etc.. It is difficult to establish the ESF's uniqueness in terms of curriculum, student mix, and operation mode to merit Government subvention without inviting similar claims for government subvention from other private international schools.

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[1] The phased out amount will vary and range from about $17 million to $22 million over the 13-year phasing out period as the existing subvention to ESF's primary and secondary schools is different and the subvention needs to be ring-fenced to the student year groups already in ESF's primary and secondary schools at the start of the phasing out.

[2] The estimate on possible fee increase is made based on a straight-line projection of the percentage share of the subvention in the total cost of the ESF and the assumption that the existing ratio of government subvention and tuition fee remains unchanged.

(a) Curriculum, student mix and tuition fees

11. While we recognize ESF as an established and valued member of the school system in Hong Kong, ESF is no different from other international school operators in terms of curriculum, student mix and operation. At present, there are 13 international school operators, in addition to the ESF, providing International Baccalaureate (IB) programme, at different levels. Majority of other international schools offer curricula such as British, American, Canadian or Australian which also meet the needs of the English speaking community. In terms of student mix, both ESF and most international schools have more than 70% of their student population being foreign passport holders.

12. There are arguments supporting continual Government subsidy for ESF students on the ground of their Hong Kong permanent resident (HKPR) status. However, the provision of recurrent subsidy to HKPRs studying in ESF's schools only would unavoidably create favoritism for the ESF as there are HKPRs studying in other private schools including international schools and Private Independent Schools (PISs). Subsidizing all HKPRs studying in ESF, international schools and PISs may inadvertently induce more HKPRs to seek admission to international schools and PISs and have adverse impact on the stability and sustainability of the local school sector.

13. On the argument of continuing recurrent subvention to the ESF to ensure fulfillment of its mission of providing affordable English language education, our research indicates that there are about ten international
B schools (marked with asterisk at Annex B) currently charging tuition fees within the ESF school fees range of $66,100 to $102,000 for its primary and secondary schools though they are not receiving any subvention from the Government. The list will be longer if we factored into account the government recurrent subvention to the ESF amounting to about $20,940 per primary student and $28,880 per secondary student per year or ESF's estimated increase in the tuition fee to fully cover the reduction in subvention. On the other hand, the tuition fees of the ESF after the phased withdrawal of the recurrent subvention and consequential upward adjustment are estimated to be still within the middle stratum of the range of tuition fees charged by international schools.

(b) ESF's support services for non-Chinese speaking students with SEN

14. Based on its pioneering role in supporting English-speaking students with SEN through its special school, JCSRS, and Learning Support Centres (LSCs) in its mainstream schools and its commitment to strengthen such services, ESF has proposed to provide subsidized services to students

with identified special learning needs, ranging from mild to moderate to profound needs as well as provision for gifted students in their mainstream schools.

15. While we started to provide recurrent subvention to the ESF for the SEN services in their mainstream schools as well as the JCSRS back in the 1970s in light of the then lack of such services in both the international school and local school sectors, most international schools in Hong Kong nowadays are providing services for SEN students very similar to those rendered by the ESF, e.g. enhanced classroom support and special learning support centres. It is difficult to maintain level playing field unless similar financial support in the form of recurrent subvention is given to other international schools providing comparable services.

16. At present, all eligible children with SEN have the right to enjoy equal opportunity to receiving education in public sector schools in Hong Kong. Children (including non-Chinese speaking children) with severe or multiple disabilities may be placed in special schools for more intensive support. Other children with SEN are offered places in mainstream schools where various support services have been put in place. Any subvention to non-Chinese speaking students with SEN in ESF schools or other international schools needs to be premised on the identification of a service gap and the most appropriate means of addressing the gap.

17. As for the JCSRS under the ESF, it is the only special school in Hong Kong adopting English as the medium of instruction and communication. Although local special schools admit students with more severe or multiple disabilities, including those non-Chinese speaking students, they may need to be better equipped to fully meet the service needs of those non-Chinese speaking children with more severe disabilities, particularly in the absence of private international special schools for those children of overseas investors or employees who will only stay in Hong Kong on a temporary basis and who would understandably factor into account the academic articulation and adaptation implications for their children when they return to their home countries or relocate to other places with their parents.

18. On the one hand, it is difficult to establish a robust case to ring-fence subventions to the ESF only for the provision of SEN support for non-Chinese speaking students. On the other hand, we are not in the position now to confirm whether local special and mainstream schools can effectively and fully meet the demand of non-Chinese speaking SEN students. ESF and we therefore agree that the most prudent course at the present stage is to carve out from the package of phase-out arrangements the

existing recurrent subvention of $28.3 million per year for ESF's support services to students with SEN and to freeze at existing level pending further review.

(C) Redevelopment of Island School and the change in capital subvention policy for ESF

19. It is our prevailing policy to provide the ESF with land at nominal premium and capital grant which equals to 100% of the cost for constructing a standard-design public sector school of the same student population. The last capital works project of the ESF is the redevelopment of the Kowloon Junior School in 2011 on which the Government provided capital grant of $187.4 million. In accordance with this policy, ESF has been seeking Government financial support for the redevelopment of the Island School, one of their secondary schools, since 2008 in light of the fast deteriorating condition of the premises and the expanding student population.

20. Subject to approval of the Public Works Subcommittee and Finance Committee of the LegCo, the provision of capital subvention to the redevelopment project will help ease the cash flow of the ESF in the initial phasing out years. The capital grant is estimated to be in the realm of about $270 million which is about one-year subvention to the ESF. To align the policy of providing capital subvention to ESF with those available to international schools in the future, no financial support except an interest-free loan with a ten-year repayment period for construction of their schools on greenfield sites will be provided to the ESF apart from the redevelopment of the Island School.

(D) Monitoring on ESF during the phasing out period

21. Appropriate mechanism would be put in place to ensure that the government subvention to ESF for existing ESF's kindergarten, primary and secondary school students and those for SEN students in both ESF's mainstream schools and JCSRS, will not be used to cross-subsidise students not covered by the grandfathering or carve out arrangement. Such mechanism should include but not limited to setting up separate accounts for income and expenditure for students covered and not covered by the grandfather arrangement. Moreover, any adjustment to the tuition fees charged by the ESF, needs to be approved by the Education Bureau in accordance with the Education Regulations. ESF is required to submit their audited accounts to the Education Bureau when applying for such fee adjustment.

22. We have also taken the opportunity to remind the ESF to continue to maintain their student mix of having no less than 70% of their overall student population being non-local students (those having foreign passports) in order to comply with the latest overarching requirements for international schools receiving government assistance in the form of sites or premises or interest-free loan. ESF has already incorporated this requirement in its admission policy.

ESF's response

23. The ESF conducted two parent consultation sessions on 11 and 14 June 2013. The ESF's Board of Directors considers that to prolong the uncertainty that has surrounded the subvention review for more than a decade is not in the interests of the ESF as an organization or the students they serve. They believe that the proposal is the best settlement available because of the protection it offers to parents with children currently in the ESF system. The Board formally accepted the phasing out arrangement set out in paragraph 6 above at their meeting on 18 June.

Way forward

24. We will continue to work closely with the ESF to map out the implementation details of the phasing out arrangement to ensure a smooth kicks-in of the phased reduction in the existing recurrent subvention in the 2016/17 school year.

Education Bureau
July 2013

Annex A

Key parameters to steer the review of Government subvention to the ESF

The following key parameters were adopted to guide the review of the subvention arrangement of the ESF -

(a) the basis for recurrent subvention to the ESF should be revised having regard to the policy intent of meeting the needs of the international community for English-medium education in Hong Kong;

(b) the existing subvention should be phased out very gradually so as to minimize the impact on the existing students;

(c) any future subvention arrangement should be formulated bearing in mind the characteristics of the ESF operation vis-à-vis other schools and the possible implications of the subventions for the public sector schools, particularly in terms of the curriculum and the extent of subvention received, with a view to minimizing backwash effect on local schools and upholding the local curriculum and assessment requirements;

(d) related to (c) above, any future subvention arrangement to the ESF should not lead to similar claim for recurrent subvention from other international schools or PIS running non-local curriculum;

(e) any future Government subvention for the ESF's services will be considered having regard to the service needs of the education system as a whole and the cost for providing comparable services in other sectors of the school system;

(f) any new subvention arrangement should be rationalised on a longer term and broader basis by re-positioning the ESF as a service agent of the Government in providing education services for students who are best suited to benefit from English-medium education; and

(g) the Government's regulatory oversight on ESF should be so structured as to fall into line with the prevailing standard applicable to other schools of similar nature; in particular, the oversight should be commensurate with the level and nature of Government subvention, if any.

Annex B

Tuition Fees of ESF schools and international schools (IS) in the 2012/13 school year
(Schools charging tuition fees within the range charged by the ESF)*

<table>
<tr><th rowspan="3"></th><th rowspan="3">School Name</th><th colspan="13">Annual Tuition Fees (Hong Kong Dollars)</th></tr>
<tr><th colspan="6">Primary</th><th colspan="7">Secondary</th></tr>
<tr><th>Y1</th><th>Y2</th><th>Y3</th><th>Y4</th><th>Y5</th><th>Y6</th><th>Y7</th><th>Y8</th><th>Y9</th><th>Y10</th><th>Y11</th><th>Y12</th><th>Y13</th></tr>
<tr><td colspan="15">Primary-cum-Secondary</td></tr>
<tr><td>1</td><td>*Hong Kong Japanese School [a][b]</td><td colspan="6">31,200</td><td colspan="3">33,600</td><td colspan="4">-</td></tr>
<tr><td>2</td><td>*Sear Rogers IS – Peninsula</td><td colspan="6">70,840</td><td colspan="3">82,280</td><td colspan="2">77,000</td><td>88,000</td><td>-</td></tr>
<tr><td>3</td><td>*Kiangsu & Chekiang Primary School & Kiangsu–Chekiang College – Int’l Section</td><td colspan="6">68,500</td><td colspan="7">88,000</td></tr>
<tr><td>4</td><td>*Korean IS (Korean stream) [c]</td><td colspan="6">68,500</td><td colspan="6">89,500</td><td>-</td></tr>
<tr><td>5</td><td>*French IS (French stream)</td><td>76,183</td><td colspan="5">73,373</td><td colspan="4">85,076</td><td colspan="3">104,092</td></tr>
<tr><td></td><td>ESF schools (existing level)</td><td colspan="6">66,100</td><td colspan="5">98,000</td><td colspan="2">102,000</td></tr>
<tr><td>6</td><td>Christian Alliance P C Lau Memorial IS</td><td colspan="3">83,900</td><td>88,200</td><td>94,600</td><td>101,000</td><td colspan="3">109,800</td><td colspan="3">119,800</td><td>-</td></tr>
<tr><td>7</td><td>*Korean IS (English stream) [a]</td><td colspan="6">79,500</td><td colspan="6">89,500</td><td>-</td></tr>
<tr><td>8</td><td>*Delia School of Canada [a]</td><td colspan="8">86,000</td><td colspan="2">95,000</td><td colspan="2">99,000</td><td>-</td></tr>
<tr><td>9</td><td>Discovery Bay IS</td><td colspan="6">86,600</td><td colspan="5">115,500</td><td colspan="2">-</td></tr>
<tr><td rowspan="2">10</td><td rowspan="2">French IS (Bilingual and English stream)</td><td>83,433</td><td colspan="5">81,217</td><td colspan="4">94,753</td><td colspan="3">-</td></tr>
<tr><td colspan="6">86,783</td><td colspan="5">111,767</td><td colspan="2">139,803</td></tr>
<tr><td>11</td><td>American IS</td><td colspan="2">91,720</td><td colspan="3">96,640</td><td colspan="3">103,480</td><td colspan="4">113,440</td><td>-</td></tr>
<tr><td>12</td><td>Singapore IS</td><td colspan="6">95,000</td><td colspan="4">110,000</td><td colspan="2">130,000</td><td>-</td></tr>
<tr><td>13</td><td>Australian IS [d]</td><td colspan="6">103,400</td><td colspan="4">119,300</td><td colspan="2">125,300
(IB) 154,900</td><td>-</td></tr>
<tr><td></td><td>ESF schools (estimated new level)</td><td colspan="6">81,600</td><td colspan="5">121,000</td><td colspan="2">126,000</td></tr>
<tr><td>14</td><td>Canadian IS</td><td colspan="4">106,900</td><td colspan="2">109,900</td><td colspan="2">124,100</td><td colspan="4">134,800</td><td>-</td></tr>
<tr><td>15</td><td>German Swiss IS (German stream)</td><td colspan="6">113,100</td><td colspan="5">136,500</td><td colspan="2">144,200</td></tr>
<tr><td>16</td><td>German Swiss IS (English stream)</td><td colspan="6">113,100</td><td colspan="5">136,500</td><td colspan="2">144,200</td></tr>
</table>

<table>
<tr><th rowspan="3"></th><th rowspan="3">School Name</th><th colspan="13">Annual Tuition Fees (Hong Kong Dollars)</th></tr>
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<tr><td>17</td><td>Kellett School</td><td colspan="6">116,500</td><td colspan="5">151,700</td><td colspan="2">-</td></tr>
<tr><td>18</td><td>Carmel School</td><td colspan="5">116,810</td><td colspan="7">137,250</td><td>-</td></tr>
<tr><td>19</td><td>Hong Kong Academy</td><td colspan="5">133,000</td><td colspan="3">143,000</td><td colspan="2">150,000</td><td colspan="2">157,000</td><td>-</td></tr>
<tr><td>20</td><td>Harrow IS Hong Kong</td><td colspan="5">136,500</td><td colspan="6">153,700</td><td colspan="2">159,800</td></tr>
<tr><td>21</td><td>Chinese IS</td><td colspan="6">144,800</td><td colspan="5">171,000</td><td colspan="2">173,400</td></tr>
<tr><td>22</td><td>Hong Kong IS</td><td colspan="5">148,200</td><td colspan="3">154,000</td><td colspan="3">171,600</td><td>172,200</td><td>-</td></tr>
<tr><td colspan="15">Primary</td></tr>
<tr><td>23</td><td>*Umah International Primary School (a)</td><td colspan="6">5,800</td><td colspan="7">-</td></tr>
<tr><td>24</td><td>*Japanese IS (Japanese stream) (a) (b)</td><td colspan="6">31,200</td><td colspan="7">-</td></tr>
<tr><td>25</td><td>*Lantau IS</td><td colspan="6">58,400</td><td colspan="7">-</td></tr>
<tr><td>26</td><td>Think IS</td><td colspan="3">75,000</td><td colspan="3">81,000</td><td colspan="7">-</td></tr>
<tr><td>27</td><td>Norwegian IS</td><td colspan="6">76,300</td><td colspan="7">-</td></tr>
<tr><td>28</td><td>Japanese IS (English stream)</td><td colspan="6">81,500</td><td colspan="7">-</td></tr>
<tr><td>29</td><td>Hong Lok Yuen IS</td><td colspan="6">95,000</td><td colspan="7">-</td></tr>
<tr><td>30</td><td>Kingston IS</td><td colspan="2">100,000</td><td colspan="2">105,000</td><td colspan="2">110,000</td><td colspan="7">-</td></tr>
<tr><td>31</td><td>International Montessori School – An IMEF School</td><td colspan="6">130,000</td><td colspan="7">-</td></tr>
<tr><td>32</td><td>Yew Chung IS</td><td colspan="6">151,750</td><td colspan="7">-</td></tr>
<tr><td colspan="15">Secondary</td></tr>
<tr><td>33</td><td>*Concordia IS (a)</td><td colspan="6">-</td><td colspan="6">82,000</td><td>-</td></tr>
<tr><td>34</td><td>International College Hong Kong (N. T.)</td><td colspan="6">-</td><td colspan="3">125,000</td><td colspan="2">130,388</td><td>139,000</td><td>-</td></tr>
</table>

Note –
(a) No fee increase in 2012/13 school year.
(b) Fees are usually effective from April each year when the school year starts.
(c) Fees are usually effective from March each year when the school year starts.
(d) Fees are usually effective from January each year when the school year starts.
(e) The table shows the position as at September 2012.
(f) The grades in individual schools in the table draw a rough correspondence to the grades in ESF schools. Individual schools may name their grades differently.