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Panel on Education

Meeting on 9 July 2013

Background brief on issues related to the subvention arrangements for the English Schools Foundation

Purpose

This paper summarizes the concerns of Members of the Legislative Council and the Panel on Education ("the Panel") on issues related to the subvention arrangements for the English Schools Foundation ("ESF").

Background

Existing arrangements

2. ESF was established in September 1967 under the English Schools Foundation Ordinance (Cap. 1117) ("the ESF Ordinance"), and is vested with the power, subject to the provisions of the Education Ordinance (Cap. 279), to own, manage, administer and operate within the territory schools offering, without regard to race or religion, a modern liberal education through the medium of English to boys and girls who are able to benefit from such an education. ESF currently operates nine primary schools, five secondary schools and one special school. Its associate company, the ESF Educational Services Limited ("ESL"), operates four kindergartens and two private independent schools.

3. According to the information provided by the Education Bureau ("EDB") in July 2011, in terms of student profile, more than 70% of the overall student population of ESF schools was holding foreign passports. Among the students, over 65% were the children of permanent residents of Hong Kong, comprising children of foreign nationals who had come to work and settle here, children from returned emigrant families, as well as children from local families aspiring

for English-medium education¹.

4. The schools operated by ESF receive recurrent subsidies calculated on a per-class basis from the Government. The subvention for ESF in the 2010-2011 school year was about \$284 million². The existing recurrent and capital subsidies available to ESF schools are set out in **Appendix I**. The schools and kindergartens operated by ESL do not receive any subsidy from the Government. A mutual understanding was reached between the Administration and ESF in 1999 to review the subsidy and with effect from the 2000-2001 school year, to freeze the subvention rate at the 1999-2000 school year level pending a mutually acceptable long-term arrangement.

Report No. 43 issued by the Public Accounts Committee

5. In February 2005, the Public Accounts Committee ("PAC") issued its Report No. 43 which covered, amongst others, government subsidies to ESF, as well as the corporate governance of ESF and its school administration. One of the major concerns expressed by PAC was that the then Education and Manpower Bureau should complete the review of government subsidies to ESF and come to an agreement with ESF expeditiously over the future subvention arrangements. The areas of concern highlighted in the said Report are listed in **Appendix II**.

The English Schools Foundation (Amendment) Bill 2007

6. The Bill was introduced into the Council by Hon Abraham SHEK on 30 May 2007. It sought to make changes to the governance structure of ESF and the administration of its schools. The Bill, which had been scrutinized by a Bills Committee, was passed by the Council on 5 March 2008 with amendments. Following the enactment of the English Schools Foundation (Amendment) Ordinance 2008, ESF established its Board of Governors and various committees, and put in place a series of reform measures to improve its governance and corporate management.

Deliberations on issues related to government subvention

7. As informed by the Administration, formal discussions with ESF on the review on the subvention arrangements ("the Review") had commenced in early 2011. The ESF Board of Governors established a Steering Group led by its Chairman to oversee the Review and to conduct discussions with the

¹ See LC Paper No. CB(2)2291/10-11(03) issued by EDB for the Panel meeting on 11 July 2011.

² ditto

Government. The Panel was briefed on the progress of the Review at its meeting on 11 July 2011. The major views and concerns raised are summarized in the ensuing paragraphs.

Provision of quality and affordable English-medium education

8. It was noted that ESF had re-affirmed its commitment to act as the agent of the Government in providing quality and affordable education in the English medium to meet the needs of the community³. Some members were particularly concerned that ESF schools had raised their tuition fees by some 30% over the past five years, rendering the tuition fees unaffordable to many expatriate families. The Panel had also noted from some of the submissions from parents of ESF school students that the significant increases in tuition fees had been a cause of concern. Members questioned whether this development had in fact deviated from the original intent of ESF schools to provide quality and affordable education.

9. In accounting for the level of tuition fees of ESF schools, ESF explained that the level of government subvention for ESF had been frozen at the level of the 1999-2000 school year, while the student population of ESF schools had grown by 26%. As a result, the subvention per student had actually been reduced by 25%. While ESF had strived to keep its tuition fees at an affordable level without prejudicing the quality of education, some 80% of its total outlay was for salary expenses as it needed to offer highly competitive remuneration packages in the face of strong competition from international schools for high-calibre teachers.

10. Some members considered that ESF should take into account the amount of subvention received and the balance in its reserve when contemplating any increase in tuition fees. According to ESF, with the increase in students and the ageing of many ESF school premises over the years, it was necessary for ESF to upkeep the school premises to provide quality facilities for its students. In July 2011, ESF had a cash balance of \$300 million and most of the balance of its reserve had been spent on upgrading its school premises. The Panel noted the stance of ESF that the continuation of recurrent subvention and capital grant was necessary for it to continue to fulfil its mission of providing affordable English language education.

Admission policy

11. Given the need for Hong Kong to attract foreign investments, some members considered that ESF should assume the important role of ensuring the

³ See LC Paper No. CB(2)2291/10-11(03) for the Panel meeting on 11 July 2011.

provision of school places for children whose parents came to Hong Kong for business or professional reasons. Some members highlighted the difficulties faced by many native-speaking English teachers employed by local schools when seeking ESF school places for their children. They urged the Administration to follow up with ESF on its admission policy in this regard.

12. The Administration confirmed that the admission policy of ESF was one of the key issues covered in the Review. According to the Administration, ESF would review its admission policies to ensure that they were fully aligned with government policy and met the needs of the Hong Kong community. However, to preserve ESF's autonomy, the Administration would not, without justified grounds, mandate ESF to give priority to certain groups of students in its admission. The Chairman of ESF also informed members that ESF adopted a non-selective policy in student admission, subject to the availability of school places.

Positioning and services of ESF

13. The Panel noted that in conducting the Review, one of the issues considered by the Administration was the role of ESF and how it was to be re-positioned in present-day circumstances. Members were also aware of the concern raised in the PAC Report No. 43 issued in 2005 about the differential treatment of ESF over international schools and PAC's recommendation that the historical reason for the subvention should be re-visited in the present-day context. The uniqueness of ESF schools in Hong Kong's education system had prompted the question of whether ESF schools should be classified/regulated as international schools or Direct Subsidy Scheme schools.

14. The Panel noted that while ESF had been offering a British curriculum, it had evolved to provide the International Baccalaureate ("IB") curriculum since 2000 with qualifications accredited by the IB Organization and by a number of examining bodies in the United Kingdom. ESF had also been providing education for non-Chinese speaking students with special educational needs ("SEN") in Hong Kong through its special school, Jockey Club Sarah Roe and by operating a dedicated facility in some of its mainstream schools, serving a total of 200 SEN students as at July 2011. ESF had indicated its commitment to strengthening its service in this regard.

The way forward for the Review

15. When reporting to the Panel in July 2011 on the directions and different options to be examined in the Review, the Administration had confirmed that the service and operation of ESF had to be further examined from the aspects of uniqueness, affordability and cost-effectiveness. It was pointed out that ESF

would also need to review the operation of the financial assistance scheme for deserving students. The Panel noted that the Administration would review whether ESF would be able to migrate progressively towards eventual self-financing without prejudicing the quality of education offered⁴.

16. Whilst agreeing that the role, positioning and subvention arrangements of ESF should be reviewed, members generally agreed that government subvention for ESF should not be withdrawn for the time being pending the outcome of the Review. They were also keen to ensure that existing students in ESF schools should not be affected by any changes to the subvention arrangements.

17. Some members stressed that if government subvention to ESF was to continue, a more effective monitoring mechanism over ESF's financial management should be put in place in order to ensure the proper use of public resources. Where necessary, consideration should be given to amending relevant provisions of the ESF Ordinance to enhance accountability and transparency. There was a view that regulatory oversight by the Government over the ESF sector should be comparable to that applicable to other schools of a similar nature.

18. The Administration wrote to the Panel in June 2012 to report the progress of the Review. The Panel noted that the Administration had proceeded to review the role and services of ESF under a specified set of policy objectives and parameters, which included the phasing out of the existing recurrent subvention in a gradual manner in order not to prejudice existing students, the possible re-positioning of ESF to provide a broader range of education services, its student admission policy etc. A copy of the letter is at **Appendix III**.

19. At the Council meeting on 31 October 2012, Hon Tommy CHEUNG raised an oral question asking, amongst others, whether the authorities would speed up the reduction of subsidies for ESF schools following ESF's introduction of the Nomination Rights Scheme⁵. In connection with the Examination of Estimates of Expenditure 2013-14, Dr Hon Kenneth CHAN sought information on the progress of the Review. In its replies, EDB reiterated its policy position that ESF was an established and valued member of Hong Kong's school system. Review of the subvention should be based on a holistic perspective of the entire school system and the position of ESF therein, taking into account the arrangements for other schools which operated in a like-fashion⁶.

⁴ See LC Paper No. CB(2)2291/10-11(03) for the Panel meeting on 11 July 2011.

⁵ ESF introduced a Nomination Rights Scheme in October 2012 to replace the Corporate Surety Scheme.

⁶ See Controlling Officer's Reply to Initial Written Question (Reply Serial No. EDB026.)

Latest position

20. The Administration will brief the Panel on the latest progress of the Review at the meeting on 9 July 2013.

Relevant papers

21. A list of relevant papers is in **Appendix IV**.

Council Business Division 4
Legislative Council Secretariat
5 July 2013

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.

Source : Extracted from the information paper provided by the Education Bureau in November 2004 (CB(2)210/04-05(01)).

**Major areas of concern in
Public Accounts Committee Report No. 43**

Government subsidies to ESF

- (a) there was divergence of views between the then Education and Manpower Bureau ("EMB") and ESF on whether ESF schools were different from international schools and whether the existing government subsidies to the ESF schools should continue;
- (b) the EMB's arrangements for freezing ESF per-class subsidies and capping the number of ESF classes eligible for recurrent government subsidies were at variance with the Government's parity of subsidy principle for providing government subsidies to ESF schools;
- (c) EMB should expeditiously complete the review of government subsidies to ESF; and
- (d) EMB and ESF should come to an agreement expeditiously over the future of government subsidies to ESF;

Corporate governance and school administration of ESF

- (e) ESF and its schools had not adopted a high standard of corporate governance and had not exercised proper financial and administrative controls to achieve value for money;
- (f) the large size of ESF's membership, standing at 132, was not conducive to making decisions effectively;
- (g) the external members of ESF did not constitute a majority at any of ESF's four annual general meetings held in the 2000-2001 to 2003-2004 financial years;
- (h) large percentages of internal and external members failed to attend ESF's meetings;

- (i) ESF's existing arrangement for an internal auditor reporting directly to the Financial Controller was not sufficient to help ESF discharge its monitoring functions effectively;

Corporate governance and school administration of ESF's schools

- (j) there were chaos and negligence in the administration of some ESF schools;
- (k) the school administration guidelines provided by ESF were fundamentally inadequate and some schools had not taken more initiative to ensure propriety and achieve value for money in their operation;
- (l) with the exception of one school, the composition of school councils did not include alumni;
- (m) most school councils did not specifically set out their delegated decision-making powers;
- (n) some school councils did not participate in major school activities recommended by ESF; and
- (o) most schools did not require council members to declare their personal interests which might conflict with their roles.

Source : Extracted from the updated background brief prepared by the Secretariat [LC Paper No. CB(2)2291/10-11(04) dated 6 July 2011]



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8 June 2012

Ms Amy Yu
Clerk to Education Panel
Legislative Council Complex,
1 Legislative Council Road
Central, Hong Kong

Dear Ms Yu,

**Review on the subvention arrangements
for the English Schools Foundation (“ESF”)**

I write to report the progress of the review on the subvention arrangements for the ESF following our last report to the Legislative Council Panel on Education (the Panel) in July 2011.

Since July 2011, we have been engaging in dialogue with the ESF to take forward the review. We have explained to the ESF our policy position that the ESF is an established and valued member of the school system in Hong Kong. Review of the subvention should be based on a holistic perspective of the entire school system and the position of the ESF therein, taking into account the arrangements for schools which operate in a like-fashion in terms of governance and oversight mechanism, admission policy, curriculum and student mix, etc. In addition, we would factor into consideration the demand for English-medium education by the expatriate community and some local families.

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Specifically, we have proceeded to review the role and services of the ESF under the following policy objectives and parameters –

- (a) the existing recurrent subvention to the ESF should be phased out gradually in order not to prejudice the interest of existing students who had been admitted to the ESF schools before any new subvention arrangement takes effect;
- (b) the basis for considering any new subvention for the ESF should be revised and formulated in a wider context having regard to the present day considerations including the diversity of school types within the entire school system in Hong Kong and the position of the ESF therein, Hong Kong's position as an international city and possible re-positioning of the ESF to provide a broader range of education services in Hong Kong to complement local education;
- (c) in considering the unique services that ESF may offer, the competitive edge of the ESF over other types of schools providing non-local curriculum should be examined and justified by the ESF demonstrating the possible benefits of its existing services in supporting English-speaking students. Its uniqueness should also be substantiated by its role in complementing Government's policy and how it distinguishes itself in various aspects from other service providers in the school sector;
- (d) in relation to (b) and (c) above, the services provided by the ESF should be underpinned by, among other things, relevant parameters in its admission policy as a condition for granting new subvention; and
- (e) the Government's regulatory oversight on the 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 the future subvention, if any.

As a related matter, to ensure that the ESF fulfills its statutory mission to provide English-medium education to children who are able to benefit from such education in the context of our policy objective, it is essential for the ESF to lay down a clear student admission policy. In this respect, we understand that the ESF is reviewing its existing student

admissions with a view to developing an up to date scheme in tune with the needs of the community.

The discussion with the ESF is on-going along the parameters set out in the above paragraphs. We expect that more time is required to examine the uniqueness of the services provided by the ESF vis-à-vis other schools offering similar curriculum, the commensurate monitoring mechanism as well as the admission policy of the ESF to reflect its uniqueness. We aim to report further the progress of the review to the Panel on Education by the end of 2012.

Yours sincerely,



(Wendy Chung)
for Secretary for Education

c.c. AA/SED

Appendix IV

Relevant papers on issues related to the subvention arrangements for the English Schools Foundation

Committee	Date of meeting	Paper
Legislative Council	23.2.2005	Report No. 43 of the Public Accounts Committee
Panel on Education	11.7.2011 (Item IV)	CB(2)2291/10-11(03) CB(2)2291/10-11(04) Minutes CB(2)2332/11-12(01)
Legislative Council	31.10.2012	Official record of Proceedings Pages 46 – 54 (Question 5)
Finance Committee	12.4.2013	Administration's replies to members' initial written questions in examining the Estimates of Expenditure 2013-2014 (Reply serial number: EDB026)

Council Business Division 4
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