

Report No. 43 of the Director of Audit — Chapter 3

GOVERNMENT SUBSIDIES TO THE ENGLISH SCHOOLS FOUNDATION

Summary

1. The English Schools Foundation (ESF) was established under the English Schools Foundation Ordinance (Cap. 1117) in 1967. It operates 15 primary and secondary schools which receive recurrent government subsidies (totalling \$299 million in the 2002-03 school year, representing 29% of ESF income), and 1 primary school without such subsidies.

Audit review

2. The Audit Commission (Audit) has recently conducted a value for money audit of the ESF. The audit covered three major topics, namely: (a) government subsidies to the ESF; (b) corporate governance and Headquarters administration of the ESF; and (c) school administration of the ESF. This report deals with government subsidies to the ESF.

Reviews of government subsidies to ESF schools and international schools

3. **Government policy.** In 1965, the Government issued an Education Policy White Paper which stated that the need for education in the English medium should best be filled by aided schools, and that the general level of government subsidy to this type of education should be the same as that provided for the majority of the community. This is known as the **parity of subsidy principle**.

4. **Reviews of government subsidies to ESF schools in 1979 and 1995.** In 1979 and 1995, the Education and Manpower Bureau (EMB) carried out two major reviews of government subsidies to the ESF, which led to reductions in annual recurrent subsidies of \$40,000 and \$12.6 million to the ESF respectively.

5. **Review of government subsidies to international schools in 1995.** In November 1994, the EMB formed a working group to conduct a review of the provision of international school places. The working group defined international schools as schools

which follow a non-local curriculum and whose students do not sit for local examinations. In October 1995, the Executive Council approved that the government policy of providing no recurrent government subsidies to international schools should continue.

6. ***Review of government subsidies to ESF schools in 1999.*** In 1999, the EMB conducted another review of government subsidies to the ESF. In the review, the EMB found that ESF schools were not different in nature, in terms of both curriculum offered and student mix, from other international schools, and that the recurrent government subsidies to ESF schools had provided an unfair advantage to these schools in competing with other international schools. The EMB recommended that the Government should put ESF schools on par with other international schools in terms of government subsidies, by adopting a phased approach to withdrawing recurrent subsidies from ESF schools. Since then, the EMB has held discussions with the ESF on this issue.

7. ***Disparities in government subsidies between ESF schools and other international schools.*** Audit notes that ESF schools receive much more favourable government subsidies than international schools operated under the Private Independent School Scheme and other non-profit-making international schools. Among the three types of international schools receiving government subsidies, ESF schools are the only international schools which receive recurrent government subsidies. In the past years, some international schools expressed concern over the disparities in government subsidies between ESF schools and other international schools.

8. ***Changes in the number of international schools and students.*** Audit notes that, in the 1963-64 school year, 95% of international-school students (students of six government schools) received recurrent government subsidies. However, in the 2003-04 school year, only 40% of these students (students of the 15 ESF schools) received such subsidies. In the 2003-04 school year, the majority of international-school students (55%) were studying in non-profit-making schools which did not receive any recurrent government subsidies.

9. ***Lower school fees charged by ESF schools.*** Audit notes that, in the 2003-04 school year, the average annual ESF school fee of \$64,154 was the second lowest when compared with the other eight largest local international schools (in terms of student number). If recurrent government subsidies are fully reflected in ESF school fees, the estimated average annual ESF school fee of \$89,617 will still be lower than those of three local international schools.

10. ***Views of the ESF.*** In response to Audit observations, the ESF stated that it did not accept that the Government's unilateral action to define ESF schools as international schools should affect their entitlement to recurrent government subsidies. It supported the

retention of the parity of subsidy principle for providing government subsidies to ESF schools.

11. **Views of the EMB.** In response to Audit observations, the EMB stated that, since 1999, it had been holding discussions with the ESF on the way to align the Government's relationship with the ESF with prevailing policies, including restoring the level playing field in the international-school sector.

12. **Audit recommendation.** *Audit has recommended that the Secretary for Education and Manpower should expedite action to complete the review of government subsidies to ESF schools.*

Freezing government subsidies to ESF schools

13. Since the 2000-01 school year, the EMB has implemented an interim arrangement under which ESF per-class subsidies have been frozen at the 1999-2000 school-year level. In April 2004, the EMB informed the ESF that, in view of stringent financial constraints, starting from the 2004-05 school year, the Government would not provide extra subsidies to the ESF in respect of any additional classes above the existing level. *Audit has recommended that the Secretary for Education and Manpower should seek the authorisation of the Executive Council and the Legislative Council for the interim measures on providing recurrent government subsidies to the ESF if changes to ESF subsidy arrangements cannot be finalised in the near future.*

Recent fact-finding exercise

14. In January 2003, the EMB and the ESF formed a joint-review team to conduct a fact-finding exercise to review the cost structure of the ESF and to identify possible areas for savings. The exercise had not yet been completed up to the completion of this audit in August 2004. The Secretary for Education and Manpower has said that the exercise may lead to no change, a reduction or an increase in government subsidies to the ESF. *Audit has recommended that the Secretary for Education and Manpower should seek the approval of the Executive Council and the Legislative Council for changes in the approach to providing recurrent government subsidies to the ESF.*

Response from the Administration

15. The Administration has accepted the audit recommendations.

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