

**For discussion  
3 July 2001**

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**LegCo Panel on Education**

**Review of  
the Kindergarten Subsidy Scheme**

**Purpose**

This paper aims to examine possible improvements to the Kindergarten Subsidy Scheme (KSS) to provide incentives to enhance the quality of early childhood education (ECE) as well as to ensure more cost-effective use of resources.

**Background**

*Overview*

2. There are 789 kindergartens (KGs), of which 309 (39%) are private independent and 480 (61%) non-profit-making (NPM). Out of some 160,000 pupils in KGs, about one-third choose to attend private independent KGs. According to the 2000 Teacher Survey, there were 9,159 KG teachers, of whom 5,968 (65%) were trained teachers.

3. The Government recognises the importance of ECE and has pledged to ensure that no one is deprived of the opportunity to receive ECE due to a lack of means. We provide financial assistance to NPM KGs through the KSS and reimbursement of rent, rates and government rent; operate a Fee Remission Scheme (FRS) for needy families; and invest heavily on teacher training.

4. To rationalise the regulation and improve the quality of ECE, the Administration has embarked on three exercises, namely, review of the KSS, review of the FRS, and harmonisation of child care centres (CCCs) and KGs. This paper deals with the KSS review only. Findings and proposals from the other reviews will be presented to Members when they are available.

*The KSS*

5. The KSS was introduced in 1995 to assist KGs in progressively meeting the government requirement for all KGs to employ

at least 40% of qualified KG teachers (QKTs). In 1997, we raised this target to 60% by 2000/01. To be eligible for the KSS, a KG must be NPM, must pay teachers according to recommended salary scales<sup>1</sup>, and the school fees must not exceed 1.5 times the weighted average school fee<sup>2</sup> of NPM KGs in the previous year.

6. Prior to the 1998/99 school year, the KSS was based on pupil enrolment. Following a review in 1998, the KSS was changed to a class grant, based on a class size of 30, and made up of two rates. KGs which employed the minimum percentage of QKTs required at the time received the basic rate, and KGs which employed at least 10% more QKTs received the enhanced rate. The rates are adjusted annually according to changes in the CPI(A). In 2000/01, the basic and enhanced rates converge at \$41,000 as all KGs are expected to have reached the target of 60% QKTs. Furthermore, with two consecutive years of deflation, the class grant for 60% QKTs has remained at \$41,000 since 1999/00.

7. There are 295 KGs under the KSS, representing 61.5% of all NPM KGs. Together they have over 68 000 pupils and 3,370 teachers. All these KGs have achieved the target of 60% QKTs. Total expenditure on the KSS amounts to \$128.2 m in 2000/01.

### *New initiatives*

8. In the 2000 Policy Address, the Chief Executive announced that the teacher to pupil ratio for KGs should be progressively improved by three stages from 1:20 (K1 and whole day KG) and 1:30 (K2 and K3) to 1:15 for all KG classes by 2003/04. The Chief Executive also announced that by 2003/04, all new teachers must have received pre-service QKT training, with a view to achieving 100% QKTs through training and natural wastage. In the longer term, the aim is to raise the entry qualifications of KG teachers to sub-degree or higher levels.

### **The Review**

9. There have been calls for the Government to include ECE as

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<sup>1</sup> The salary scales for QKT is \$12,595 to \$23,170 (mid-point at \$18,140); for Qualified Assistant KG Teachers is \$9,785 to \$16,095 (mid-point at \$12,595); for Unqualified KG Teacher is \$9,385 to \$10,655 (mid-point at \$9,995).

<sup>2</sup> The weighted average school fee for NPM KGs in 2000/01 is \$11,946 per annum. The KSS school fee cut-off point is \$16,900 per annum (\$11,264 in 1999/2000 x 1.5).

part of basic education to be provided free for all by the Government. While this proposition is understandable, it is questionable whether money should be spent in this way, at a time when there are competing demands for resources from various sectors of education. We are also aware of the vagaries of market forces and the problems of market failure, and consider that the Government has a role to play in planning and regulating the provision of ECE, and in providing financial assistance, where necessary.

10. We therefore propose that the existing three-pronged approach of subsidising NPM KGs, helping needy families, and investing in teacher education and training should continue.

#### *Key Issues*

11. The review aims to address two questions. First of all, we have to find out whether KGs, with the current provision of class subsidy, is sufficient to achieve the improved teacher to pupil ratio and 100% QKTs without substantially increasing school fee. If the answer is negative, then what additional incentives should be provided to help KGs achieve the policy targets.

#### *Existing provision*

12. Premises for NPM KGs are provided in new public housing estates according to established planning standards, but few KGs are closed down in areas where the population has aged. As a result, the number of NPM KGs is projected to increase from 439 in 1996/97 to 489 in 2001/02. However, the number of pupils in NPM KGs has been decreasing over the same period from 115,712 to an estimated 97,500, due to progressive decline in the birth rate. The consequence is under-enrolment in many KGs. Out of a total of 3,137 subsidised classes, some 20% have less than 15 pupils, i.e. less than half of the class size on which the class grant was based. In the more extreme cases, some 44 classes have less than 5 pupils.

13. The more popular KGs are able to balance their books with the existing class grant. Their fees are within the weighted average of school fees among NPM KGs and they can afford to recruit 100% QKTs. KGs which charge slightly higher schools fees are able to accumulate a surplus. However, KGs with under-enrolment of pupils are not able to provide the same level of service.

14. An analysis of the profile of existing KGs shows that 48 KGs in the KSS would have to recruit between 0.5 to 3 additional QKTs in order to achieve the teacher to pupil ratio of 1:15 and the 60% QKTs target. Another 16 KGs would have to upgrade some of the existing teachers to QKT in order to satisfy the two conditions.

15. We have carried out a simulation of income and expenditure, using the weighted average school fees and mid-point salaries, to assess the financial implications of raising the teacher-pupil ratio to 1:15 and employing 100% QKTs. The results show that current expenditure on the KSS, if equitably distributed, is generally sufficient to meet both targets.

16. The crux of the matter is, at present, too many KGs are chasing after too few students, leading to unhealthy competition which not only affects the viability of some KGs but also drives down quality. We must address the issue of supply and demand. Increasing the class grant alone will only keep the under-enrolled KGs afloat for much longer and exacerbate the existing unhealthy competition among KGs.

#### *Rationalisation of KSS*

17. To ensure more cost-effective use of resources, we are examining the desirability of changing the basis for the KSS as follows:

- (a) introduce a group grant to replace the class grant. The size of each group will be set at 15, in line with the recommended teacher-pupil ratio of 1:15 for all KG levels by 2003/04.
- (b) derive the number of groups eligible for subsidy by dividing the total enrolment of a session of a KG by 15 and rounding up for the last group.
- (c) adjust the number of groups to ensure that there is at least one group for each level of study. Following the steps in (b) and (c), 4,870 groups will be eligible for subsidy.
- (d) where the average group size of a KG falls below 10, the KG will, instead of getting a group grant, receive a per capita grant, set at 10% of the group grant, for every pupil in the KG.

18. Since the existing rate of class grant of \$41,000 is based on 30 pupils, the group grant should be \$20,500, and the per capita grant \$2,050. It is noteworthy that between April 1999 and April 2001, the CPI(A) dropped by 4.5%. In principle, the subsidy should have been adjusted downwards by the same magnitude. However, since salaries and fixed overheads make up 85% of the operating cost of a KG, and taking into account the need for KGs to implement the enhanced teacher to pupil ratio and the present economic climate, we are considering freezing the subsidy at the current level.

*Enhancement to facilitate KGs to attain 1:15 teacher to pupil ratio*

19. To reduce the pressure on fees in the circumstances described in paragraph 14 above, we are studying the desirability of setting the group grant for 60% QKTs attainment, based on a 1:15 teacher to pupil ratio, at \$23,600 and the per capita grant \$2,360.

*Incentives for quality enhancement*

20. All KGs in the KSS have achieved the 60% QKTs requirement. In fact, 95% of KGs have actually achieved 100% QKTs. However, if we take the enhanced manning ratio of 1:15 as the basis, only 51% of existing KSS KGs have attained 100% QKTs.

21. To encourage KGs to upgrade the qualifications of their teachers, we are further considering an increase of the group rate from \$23,600 (see paragraph 19 above) in two steps to \$27,200 and \$31,300, to correspond to 80% and 100% QKTs attainments. The corresponding per capita grants are therefore \$2,720 and \$3,130. For those KGs already employing 100% QKTs, they have to use the extra resources to reduce school fees.

22. Should the above be pursued, there will be three KSS group rates for KGs with average group size of 10 to 15 pupils from 2001/02, namely, \$23,600 for 60% QKTs; \$27,200 for 80% QKTs and \$31,300 for 100% QKTs. The respective per capita rates will be \$2,360, \$2,720 and \$3,130 respectively. These rates represent increases of 15%, 33% and 53% over those following rationalisation as explained in paragraph 18 above. We expect all KGs participating in the KSS to achieve 100% QKTs by 2004. The group and per capita rates will continue to be reviewed annually, to be adjusted according to changes in the CPI(A).

*Transitional arrangements*

23. On the basis of the enhanced group grant of \$31,300, we estimate that 12 800 pupils in 102 KGs which are under-enrolled will receive less subsidy, compared to the existing class grant system. Where the problem of under-enrollment is serious, some KGs may not be financially viable. To avoid undue disruption to children who will be studying in these KGs in 2001/02, we are considering the need for a grace period during which such KGs may choose to remain on the existing class grant system for these children and gradually phase out the student population.

24. We appreciate the difficulty of having to run down a KG. KGs which have a good track record of providing quality education, and are found to have low enrollment caused by demographic factors beyond their control, will be encouraged and facilitated in applying for new KG premises in developing new towns where the population is building up.

*Consultation and Implementation*

25. We have sounded out KG operators throughout the review and, subject to any views which Members may have, will formally consult them on the above proposals during the summer. We intend to submit recommendations to the Finance Committee in the next legislative session, for implementation in the 2001/02 school year.

**Advice sought**

26. Members are invited to advise on the review of the above.

Education and Manpower Bureau  
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