

## **ITEM FOR FINANCE COMMITTEE**

### **HEAD 40 - EDUCATION DEPARTMENT Subhead 326 Kindergarten Subsidy Scheme**

Members are invited to approve -

- (a) a schedule of revised rates of subsidy on the basis of a group grant to eligible kindergartens under the Kindergarten Subsidy Scheme;
- (b) retention of the existing class grant of \$41,000 per class per annum for kindergartens opting for the phase-in arrangement; and
- (c) delegation to the Secretary for Education and Manpower the authority to approve revisions to the rates of group subsidy for the 2003/04 school year and annually thereafter, in accordance with the movement of the Consumer Price Index (A).

### **PROBLEM**

We need to revise the basis of subsidy disbursement under the Kindergarten Subsidy Scheme (KSS) to ensure more effective use of public money and more equitable distribution of government subsidies among eligible kindergartens (KGs) under the KSS. We also need to improve the level of subsidy to facilitate KGs to achieve the target of employing teachers who are all qualified kindergarten teachers (QKTs) by the 2004/05 school year.

**/ PROPOSAL .....**

**PROPOSAL**

2. The Director of Education (D of E), with the support of the Secretary for Education and Manpower, proposes to -

- (a) change the basis of subsidy disbursement under the KSS from one based on “class” to one based on “group” (paragraph 5);
- (b) enhance the level of subsidy under a group grant mechanism (paragraphs 6 - 8);
- (c) retain the existing class grant of \$41,000 per class per annum for eligible KGs opting for the phase-in arrangement set out in paragraph 10; and
- (d) delegate to the Secretary for Education and Manpower the authority to approve revisions to the group rates of subsidy for the 2003/04 school year and annually thereafter in accordance with the movement of the Consumer Price Index (A) (CPI(A)).

**JUSTIFICATION**

3. With the approval of this Committee in April 1998, the subsidy under the KSS has been disbursed on a per class basis since the 1998/99 school year, based on a class of 30 pupils. However, many KG classes are now seriously under-enrolled<sup>1</sup>. While premises for non-profit-making (NPM) KGs are provided in new public housing estates according to established planning standards, few KGs are closed down in areas where the population has aged. As a result, the average class size of KGs participating in the KSS has dropped from 26 in the 1997/98 school year to 20 in the 2001/02 school year. It is not an efficient use of resources when a subsidy based on a class of 30 pupils is payable to a class of much fewer pupils. The basis of disbursing the subsidy needs to be modified to ensure that resources are utilised more effectively and distributed more equitably.

4. In addition, the D of E sees a need to enhance the level of subsidy under the KSS with a view to facilitating NPM KGs to attain the following announced policy objectives -

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<sup>1</sup> Out of a total of 3 299 subsidised classes in September 2001, 27% have less than 15 pupils, i.e. less than half of the class size on which the class grant is based. In extreme cases, 118 classes have five or less pupils.

- (a) progressively improving the teacher-pupil ratio to 1:15<sup>2</sup> for all KG classes by the 2003/04 school year and requiring all newly recruited teachers to have received pre-service QKT training by that time (announced in the 2000 Policy Address); and
- (b) requiring all KGs to employ only QKTs as teachers, i.e. “100% QKT” target, by the 2004/05 school year (announced in 2001).

### **Subsidy on a Group Grant Basis**

5. To facilitate NPM KGs to achieve the Government's policy objectives, and ensure a cost-effective use of resources, we propose to change the basis for disbursement of the KSS as follows -

- (a) Introduce a group grant to replace the existing class grant

Change the basis of disbursement from one based on the number of classes in operation (each with an assumed class size of 30 pupils) to one based on the number of groups per level of study per session (morning, afternoon or whole-day session) with 15 pupils each. This is in line with the required teacher-pupil ratio of 1:15 for all levels of study by the 2003/04 school year; and

- (b) Method for calculating group grant

Calculate the number of groups eligible for the group grant by dividing by 15 the enrolment per level of study per session.

Where there is a remainder after the division, we propose to round up the remainder into an additional group, provided the average group size for all counted groups in the same level and session is not less than 10 pupils. If the average group size after rounding up is less than 10, the remainder will not be rounded up into an additional group. Instead, a per capita grant, set at 10% of the group grant, would be payable for the remaining number of pupils. This is to ensure a reasonably effective use of the group grant which is meant for 15 pupils.

A schedule showing the number of groups for various enrolment numbers is at the Enclosure.

Encl.

**/Enhancement .....**

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<sup>2</sup> The timetable for improving the teacher-pupil ratio is –

Nursery classes:	from 1:20 to 1:15 in the 2001/02 school year
Lower KG classes:	from 1:30 to 1:15 in the 2002/03 school year
Upper KG classes:	from 1:30 to 1:15 in the 2003/04 school year

### **Enhancement of Subsidies under a Group Grant System**

6. As the current KSS grant for a class based on a class size of 30 pupils and 60% QKTs attainment is \$41,000 a year, a group grant for 15 pupils would be \$20,500 if the subsidy is to be maintained at the same level. However, taking into account the enhancement of the teacher-pupil ratio (see paragraph 4(a) and note 2 above), we recommend enhancing this rate to \$23,600 per group per annum for those KGs attaining 60% QKTs, representing an increase of 15% over the notional rate of \$20,500 under the group grant system.

7. To facilitate KGs to upgrade their teachers beyond the 60% QKT target (which has been achieved by all KGs in the 2000/01 school year), we further recommend offering two more group rates, one at \$27,200 per annum for those KGs with 80% QKTs and another at \$31,300 per annum for those with 100% QKTs, provided that they have also achieved the target teacher-pupil ratio of 1:15. These rates represent increases of 33% and 53% over the notional rate of \$20,500 for 60% QKTs attainment as explained in paragraph 6 above.

8. To summarise, the recommended group rates are -

- (a) \$23,600 for 60% QKTs attainment based on the prevailing teacher-pupil ratios; and
- (b) \$27,200 and \$31,300 for 80% and 100% QKTs attainments respectively, based on the target teacher-pupil ratio of 1:15 at all study levels.

The rates for 60% and 80% QKTs attainments will not be applicable from the 2004/05 school year onwards as by then all KGs should have achieved the target of 100% QKTs.

### **Implementation Arrangements**

9. We propose to implement the group rates in paragraph 8 above to existing KGs under the KSS with effect from the second payment of subsidy in the 2001/02 school year, i.e. in April 2002, except for those which have opted for transitional arrangements as proposed in paragraphs 10-11 below. The group rates will also apply to all eligible KGs upon joining or rejoining the KSS from the 2002/03 school year onwards.

10. We understand that for existing KSS KGs with a serious problem of under-enrolment, the proposed change from a class grant to a group grant system will mean the receipt of less subsidy, even after the proposed enhancement in subsidy rates. Although we are proposing the change for good reasons as set out in paragraph 3 above, we see merit in providing transitional arrangements to facilitate existing KSS KGs to change over to the new group grant system and thus minimise disruption to the operation of the concerned KGs. The proposed transitional arrangements for existing KGs covered by the KSS are as follows -

- (a) for the purpose of operating classes catering to the needs of existing pupils, i.e. those admitted to the KGs in the 2001/02 school year or before, up to their completing pre-primary education, we propose to provide a grace period of three years (starting from the 2001/02 school year) during which the KGs may continue to receive a class grant frozen at the current rate of \$41,000 per annum; and
- (b) for the purpose of operating classes catering to pupils newly admitted to nursery classes in the 2002/03 school year and after, all existing KGs in the KSS will receive subsidies according to the group grant system as set out in the Enclosure, but with a special provision for a grace period of three years (starting from the 2002/03 school year). The special provision is that those KGs with total student enrolment of 16-19 per level per session will receive a subsidy equivalent to the rate for two 15-person groups (instead of a subsidy based on the rate for only one 15-person group plus a per capita rate for the remaining number of pupils).

11. The proposed progressive phase-in arrangements in paragraph 10(a) and (b) above are illustrated as follows -

	2001/02	2002/03	2003/04	2004/05	2005/06
Nursery class	C	SG	SG	SG	NG
Lower KG	C	C	SG	SG	NG
Upper KG	C	C	C	SG	NG

/Legend .....

*Legend: C = Existing class grant of \$41,000 a year to continue. As the class grant is based on the a class of 30 pupils, we will not increase the grant to a KG unless there is an increase in the number of pupils which leads to an average class size greater than 30 or the permitted capacity of the existing classrooms.*

*SG = Group grant with special provision whereby KSS subsidy for two groups will be payable when the number of pupils for a level of study at either the morning, afternoon or whole-day session is between 16 and 19.*

*NG = Group grant on normal arrangement (see Enclosure).*

12. Existing KGs which have opted for the transitional arrangements in paragraphs 10 and 11 above may, however, exercise an irrevocable option to cease the arrangements and join the “normal” group grant system for all levels of study at the beginning of any school year during the phase-in period.

13. While proposing these transitional arrangements to address the concerns of KGs that are under-enrolled, we are aware that it may not be financially viable for KGs to run very small classes. Indeed, with the drop in birth rate and shift in population, every year sees the closure<sup>3</sup> of some KGs in districts with an aging population. The Education Department will facilitate those KGs with good track records of providing quality education to relocate to districts with an identified demand.

### **Future Adjustment**

14. In order to maintain the real value of the recommended subsidy rates in paragraph 8 above under the group grant system, we propose that Members delegate to the Secretary for Education and Manpower the authority to approve revisions to the group rates from the 2003/04 school year and annually thereafter according to the changes in the CPI(A).

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<sup>3</sup> There were 43 closures between December 2000 and December 2001.

**Impact Analysis**

15. Subject to the approval of this Committee, we envisage that upon introduction of the proposals –

- (a) 177 existing KGs (serving a total of 48 313 pupils) under the KSS would receive the new group grant in accordance with the recommended rates. Together they would get an additional annual subsidy of \$21.57m because of the changes (an increase of 25%); and
- (b) 143 existing KGs (serving a total of 18 015 pupils) would opt for the progressive phase-in arrangements to preserve the level of subsidy they are now receiving.

16. There would be no change to school fees for the 2001/02 school year. The Education Department will take into account the additional subsidy to be received by individual KGs under the revised KSS from April 2002 and the scope for reducing or containing school fees when approving proposals on school fees for the 2002/03 school year.

**FINANCIAL IMPLICATIONS**

17. Based on 100% QKTs and applying the enhanced group rate of \$31,300 to the profile of KSS KGs in September 2001, the group grant system is estimated to cost \$158 million per annum. This is \$23 million more than the expenditure under the existing class grant subsidy (i.e. \$135 million). We will earmark sufficient provision in the annual draft Estimates of Expenditure.

**BACKGROUND INFORMATION**

18. We introduced the KSS in September 1995 to provide a direct subsidy to eligible NPM KGs so that they may employ more QKTs and meet the proportion of QKTs required by Government without having to increase school fees substantially. The target percentage of QKTs for each KG was 40% QKTs in the 1997/98 school year and 60% in the 2000/01 school year. KGs joining KSS must meet the requirement on the percentage of QKTs, pay teachers according to the recommended salary scales<sup>4</sup>, and charge school fees not exceeding 1.5 times of the weighted average school fee<sup>5</sup> of NPM KGs in the previous year.

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<sup>4</sup> The salary scales for QKT is \$12,895 to \$23,720 (mid-point at \$18,570); for Qualified Assistant KG Teachers is \$10,020 to \$16,480 (mid-point at \$12,895); for Unqualified KG Teacher is \$9,610 to \$10,910 (mid-point at \$10,235).

<sup>5</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).

19. 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 to help minimise fluctuations in the level of assistance provided to KGs. The grant rate for all KGs joining the KSS has remained at \$41,000 per class per annum since the 2000/01 school year.

20. As at September 2001, there were a total of 498 NPM KGs, 320 (64%) of which with a total enrolment of 66 328 pupils had joined the KSS.

21. With the agreement of the LegCo Panel on Education, we commenced consultation with the kindergarten sector in July 2001. In the light of views expressed by the sector, we have revised our proposal. At its meeting held on 21 January 2002, the LegCo Panel endorsed the revised proposal which is set out in paragraphs 5-12 above.

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

23. With the approval of this Committee on 7 December 2001, we will improve the means-test mechanism of the KGFRS and introduce a new 75% fee remission level with effect from the 2002/03 school year. Assistance under the KGFRS will be much enhanced at an estimated annual additional cost of \$145 million. Over 40 000 pupils are expected to benefit.

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**Calculation of Eligible Groups**

<b><u>No. of pupils</u></b> <b><u>Per level / session</u></b>	<b><u>Proposed basis of calculating KSS subsidy</u></b>
1 – 9	Per capita
10 – 15	1 group
16 – 19	1 group for 15 pupils + per capita for remainder
20 – 30	2 groups
31 – 45	3 groups
46 – 60	4 groups
61 – 75	5 groups
76 – 90	6 groups