

**For discussion**  
on 21 January 2002

LC Paper No. CB(2)901/01-02(02)

## **LegCo Panel on Education**

### **Kindergarten Subsidy Scheme**

#### **Purpose**

The Kindergarten Subsidy Scheme (KSS) was introduced in 1995 to encourage kindergartens (KGs) to employ more qualified kindergarten teachers (QKTs). In July 2001, after considering Paper No.CB(2)1982/00-01(01), Members endorsed a proposal to improve the KSS so as to encourage KGs to employ 100% QKTs and to revise the disbursement mechanism to ensure effective use of resources. We have subsequently consulted operators on the proposal. In the light of views expressed by the trade, this paper proposes a set of revised terms for the new group grant system under the KSS.

#### **Problem in the kindergarten sector**

2. With the decline in birth rate, the number of KG pupils has been decreasing over the years, whereas the number of KGs has been on the increase. The consequence is under-enrolment in many KGs, which has adversely affected their financial viability.

3. The current KSS rate effective since 1998/99 is based on a class of 30 pupils. The average class size of KGs participating in the KSS in 1997/98 was 26. However, it decreased from 23.1 in 1998/99, to 22.7 in 1999/2000 and further to 21.7 in 2000/01.

#### **Proposal endorsed by the Panel on 3 July 2001**

4. In reply to a Member's enquiry at the meeting held on 3 July 2001, we advised that on the basis of an enhanced group grant of \$31,300, about 100 under-enrolled KGs might not be financially viable. The actual number which would face closure could be smaller if the KGs concerned could secure financial backing from their sponsoring bodies.

5. Concern was also raised that children might need to travel far to attend another KG if the ones they previously attended were forced to close down because of financial difficulty. In response, we explained

that there should be an adequate number of KGs in each public housing estate or area to meet demand. The rationalisation of the KSS was aimed at addressing the problem of over-supply of KGs in a particular area to avoid too many KGs chasing after too few pupils.

6. After thorough discussion, Members endorsed for consultation with the trade the following recommendations -

(a) *A new group grant to replace the existing class grant*

The size of each group to be set at 15, in line with the required teacher-pupil ratio of 1:15 for all levels of study by 2003/04.

(b) *Rates of payment*

Three rates of annual payment based on a teacher-pupil ratio of 1:15 at all levels of study, viz. \$23,600 for 60% QKTs attainment, \$27,200 for 80% and \$31,300 for 100%.

(c) *Method for calculating group grant*

Derive the number of groups eligible for subsidy by dividing the total enrolment of a session in a KG by 15 with rounding up for the last group, and provide at least one group for each level of study. However, if the overall group size is less than 10, we will pay the KG a per capita grant, set at 10% of the group grant, instead of a group grant. This method of calculating the number of groups is in line with the way ED proposes to administer the teacher-pupil ratio requirement.

### The Consultation

7. We put forth the above proposals at four meetings with the trade in July 2001, together with the following amendment / addition -

- (a) the three rates of annual payment would be \$23,600 for 60% QKTs attainment based on prevailing teacher-pupil ratios appropriate to the individual class levels, with \$27,200 for 80% and \$31,300 for 100% attainment based on a ratio of 1:15 for all levels of study; and

- (b) to avoid undue disruption to children studying in those seriously under-enrolled KGs in the 2001/02 school year and which plan to run down, we have proposed a grace period of three years. During the grace period, such KGs may choose to receive the existing class grant for these children and gradually phase out the pupil population.

8. The enrolment situation has deteriorated further in the 2001/02 school year. Notwithstanding a drop in enrolment, KGs are operating more classes as follows -

	<u>April 2001</u>	<u>Sept 2001</u>	<u>Change</u>
(a) No. of KGs in the KSS	295	320	+8%
(b) No. of pupils	68 111	66 328	-3%
(c) No. of classes (see analysis of class size at <u>Annex</u> )	3 137	3 299	+5%
(d) Average Class size [(b) / (c)]	21.7	20.1	-7%

9. On 24 October 2001, we met with representatives of the trade. The meeting agreed that the representatives would confer further with their members and submit specific proposals for a revised KSS. On 6 November, they submitted proposals to the Administration.

10. In the ensuing discussions, representatives of the trade refined further their proposals as follows -

- (a) calculate the number of groups eligible for the group grant separately for the morning, afternoon or whole-day session for each level of study by dividing the enrolment by 15;
- (b) pay a group grant where the number of pupils in a group is 10 – 15 pupils;
- (c) pay a per capita grant, set at 10% of the group grant, when the number of pupils is less than 10;
- (d) pay a subsidy for two groups when the number of pupils at a level of study in a session is 16 – 19; and

- (e) maintain a 3-year transitional period during which KGs may opt for either the existing class grant system or the new group grant system for all levels of study. They may also admit new nursery class pupils during the period.

### Further deliberation

11. We have very carefully considered the representations, striking a balance between meeting the concerns of the sector, maintaining an environment for the healthy development of early childhood education in a stringent market and ensuring that the KSS provision is deployed in a cost-effective manner. Under our revised proposal, the majority of KGs stand to benefit, though a fair number of KGs operating small classes will receive less subsidies. To minimise the impact on the latter group and to facilitate their adjustment, we have proposed a progressive phase-in arrangement. The Education Department will also assist KGs in areas with an aging population but have a good track record to relocate to areas with identified demand. Every effort will be made to encourage sponsoring bodies to merge KGs where possible.

12. Specifically, we have accepted paragraphs 10(a) – 10(c) and modified 10(d) and 10(e). We could not accept paragraph 10(d) as it contradicts 10(b) and 10(c) which say that a group grant should only be payable for a minimum of 10 pupils and that groups of less than 10 pupils should receive a per capita subsidy.

13. Although we do not accept paying a subsidy for two groups to 16 – 19 pupils, we are prepared to adopt it as a special provision during a 3-year transition period to further assist KGs to phase in progressively to the new system. As the subsidy for two groups is more than that of a class grant, there is no point to maintain the latter for new nursery classes of 16 pupils or more. As for groups with 15 pupils or below, we do not consider it appropriate to continue paying them a class grant which is meant for 30 pupils. We therefore recommend that the existing class grant should only be payable for all levels of study in 2001/02, for lower and upper KG classes in 2002/03 and for upper KG classes in 2003/04.

14. Apart from the value for money angle, we have to point out that providing a class grant of \$41,000 to seriously under-enrolled KGs would only keep them afloat for much longer and exacerbate the existing unhealthy competition among KGs.

Revised terms of a new group grant system

15. The proposed revised terms of a new group grant system are -

(a) Method for calculating group grant

Calculate the number of groups separately for the morning, afternoon or whole-day session on a per level basis. A group grant is payable for at least 10 pupils. Where the number of pupils is less than 10, a per capita grant, set at 10% of the group grant, would be payable. However, as part of the 3-year progressive phase-in arrangement, there will be a special provision to treat 16-19 pupils as two groups as follows-

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

(b) Rates of payment and implementation date

There will be three group payment rates. The 60% rate is related to QKTs attainment based on the prevailing teacher-pupil ratio appropriate to the individual class levels whereas the 80% and 100% rates are related to QKTs attainment based on a teacher-pupil ratio of 1:15 at all levels of study as follows -

\$23,600 for 60% QKTs attainment  
 \$27,200 for 80% QKTs attainment  
 \$31,300 for 100% QKTs attainment

The above rates will be applicable for the 2<sup>nd</sup> payment of the 2001/02 school year and the entire 2002/03 school year. From 2003/04 school year onwards, the group and per capita rates will be adjusted annually according to the changes in the Consumer Price Index (A). The current class grant of \$41,000 will be retained for those KGs choosing the progressive phase-in arrangement.

(c) Implementation arrangement

KGs may exercise an irrevocable option to join the group grant system for all levels of study starting from the 2<sup>nd</sup> payment of KSS in the 2001/02 school year, or at the beginning of any school year from 2002/03 to 2004/05. Before changing over completely to the group grant system, we propose the following progressive phase-in arrangement -

	2001/02	2002/03	2003/04	2004/05	2005/06
Nursery class	C	SG	SG	SG	NG
K2	C	C	SG	SG	NG
K3	C	C	C	SG	NG

*Note: C = Existing class grant to continue. An increase in number of pupils would however only justify an additional class grant if the increase would lead to a class size greater than 30 or the permitted capacity of the classroom.*

*SG = Group grant with special provision.*

*NG = Group grant on normal arrangement only.*

16. On 10 January 2002, we reached agreement with representatives from 25 organisations in the KG sector on the above revised proposal.

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 revised group grant system proposed in paragraph 15 above is estimated to cost \$158.41m in a year, compared to \$148.70m for the original package endorsed by Members in July 2001. This is \$23.15m more than the existing class grant subsidy of \$135.26m.

18. The average annual subsidy per pupil will be \$2,388. As compared to \$1,888 in April 2001, it represents an increase of 26%.

#### Impact on KG operators

19. Subject to the approval of Finance Committee, the revised group grant proposal would be implemented in April 2002. We envisage that -

- (a) 177 KGs (48 313 pupils) would opt to receive the new group grant in accordance with the normal arrangement and get an additional annual subsidy of \$21.57m (an increase of 25%); and
- (b) 143 KGs (18 015 pupils) would participate in the progressive phase-in arrangement and receive the existing class grant, i.e. no gain no loss.

20. For the 2002/03 school year, the existing class grant would continue to be payable to the 143 KGs in respect of their pupils in lower and upper KG classes. The group grant system with special provision would apply to new nursery classes.

21. To be financially viable, it is important that KG operators do not run very small classes. If the number of prospective pupils is very small, the operator would have to consider running down the KGs. Indeed, with the drop in birth rate and the shift in population, every year sees the closure of some KGs in districts with an aging population. (Note: There were 43 closures between December 2000 and December 2001.) The Education Department will facilitate those KGs with good track records of providing quality education to relocate to districts where there is an identified demand.

22. When all KGs attain 100% QKTs and draw the enhanced group grant of \$31,300, we estimate that 208 KGs (54 145 pupils) would benefit from the revised group grant system by \$30.14m a year.

#### Impact on parents

23. The progressive phase-in arrangement ensures that for KGs which do not receive additional subsidy, their school fees would generally be maintained at current levels. As for KGs which will receive an increase

in subsidy under the revised group grant system, the pupils may enjoy the benefit of a reduction in school fees.

24. We would like to highlight that with the approval of the Finance Committee on 7 December 2001, the KG Fee Remission Scheme will be much enhanced at an estimated annual additional cost of \$145m from the 2002/03 school year. Over 40 000 pupils are expected to benefit as follows -

- 2 300 pupils to become newly qualified for 50% remission
- 29 000 pupils to receive 75% remission instead of 50%
- 10 000 pupils to receive 100% remission instead of 50%

#### Impact on teachers

25. Teacher requirements are related more to the student population than to the number of KGs, although we appreciate that with rationalisation of the KSS, some teachers in under-enrolled KGs could become surplus to requirements. We would encourage school sponsoring bodies with more than one KG to arrange for surplus teachers to be re-deployed among their other KGs.

26. With the implementation of the 1:15 teacher-pupil ratio for all levels of study in KG by 2003/04 and the 100% QKTs requirement by 2004/05, the demand for QKTs would only increase. This should well offset any reduction mentioned in paragraph 25 above.

#### Advice sought

27. Members are invited to advise on the revised package of the KSS as proposed in paragraph 15.

## Kindergarten Subsidy Scheme

### Analysis of Class Size

No. of pupils / class	Number of classes	
	April 2001	September 2001
≤ 5	76	118 (4%)
6 – 10	256	325 (10%)
11 – 15	395	622 (19%)
16 – 20	630	631 (19%)
21 – 25	552	571 (17%)
26 – 30	971	841 (26%)
31 – 35	179	138 (4%)
36 – 40	64	41 (1%)
41 – 45	14	12 (-)
Total	3,137	3,299 (100%)