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Panel on Education

**Updated background brief prepared by the Legislative Council Secretariat
for the meeting on 13 November 2006**

Financial assistance for pre-primary service providers and parents of children receiving pre-primary services

Purpose

This paper summarises the deliberations of the Panel on Education (the Panel) on financial assistance for pre-primary service providers and parents of children receiving pre-primary services.

Background

2. Before the enactment of the Child Care Services (Amendment) Ordinance 2005, child care centres, comprising day nurseries which admitted children aged two to six and day crèches for children up to the age of two, were registered under the Child Care Services Ordinance (CCSO) and supervised by the Social Welfare Department (SWD). Kindergartens admitting children aged three to six are registered under the Education Ordinance (Cap. 279) and regulated by the Education and Manpower Bureau (EMB). As day nurseries and kindergartens were providing similar services to a similar target group, there were views that they should be subject to similar requirements, registered under the same ordinance and monitored by one single authority.

3. In September 1999, the Education Commission recommended that the Administration should examine the issue of unifying the systems of day nurseries and kindergartens. A Working Group on Harmonisation of Pre-primary Services was formed by EMB and SWD in 2000 to advise the Government on matters relating to the harmonisation of pre-primary services. The Working Group issued in April 2002 a consultation document on its recommendations. Based on the views collected, the Working Group revised its recommendations. One of the major recommendations was to redefine

child care centres as institutions providing care and supervision to children aged below three; the institutions should continue to be regulated by SWD. Another major recommendation was to rationalise the financial assistance for pre-primary service providers and parents of children receiving pre-primary services.

4. The implementation of the recommendations of the Working Group necessitated amendments to CCSO and changes to the respective financial assistance schemes for both pre-primary service providers and parents. The Administration consulted the Panel on 14 March 2005 on the proposed changes to the financial assistance schemes. The Child Care Services (Amendment) Bill 2005 to effect the legislative amendments was introduced into the Council on 27 April 2005. The Bills Committee formed to study the Bill had discussed the financial implications of the proposed changes to the financial assistance schemes on service providers and parents, although changes to the financial assistance schemes were administrative in nature and were outside the ambit of the Bill.

Deliberations of the Panel and the Bills Committee

5. The deliberations of the Panel and the Bills Committee on issues relating to the financial assistance for pre-primary service providers and parents of children receiving pre-primary services are summarised in the following paragraphs.

Financial assistance for service providers

6. Under the 5% Subsidy Scheme, non-profit-making child care centres serving children aged zero to six received a direct subsidy equivalent to 5% of the fee approved on the basis of approved capacity by SWD. In addition, they were eligible for reimbursement of rent, rates and Government rent from SWD.

7. As for kindergartens for children aged three to six, EMB provided non-profit-making operators financial assistance in two forms –

- (a) reimbursement of rent, rates and Government rent ; and
- (b) grants under the Kindergarten Subsidy Scheme (KSS).

8. KSS was introduced to encourage kindergartens to enhance the qualifications of their teaching force by employing more qualified kindergarten teachers without having to increase fees substantially. Under KSS, EMB disbursed grants based on the number of groups of 15 pupils per level of study (nursery class, lower kindergarten and upper kindergarten) per session (morning, afternoon or whole-day session). Kindergartens joining KSS were required to employ 100% qualified kindergarten teachers based on a

teacher-to-pupil ratio of 1:15 for all levels of study.

9. Upon harmonisation of the pre-primary services, the 5% Subsidy Scheme for child care centres was cancelled. The KSS was renamed as the Kindergarten and Child Care Centre Subsidy Scheme (KCCCSS) and its ambit was expanded to cover child care centres. Under KCCCSS, the rate of subsidy for children aged two to six was based on groups of 15 children or part thereof, while that for children aged zero to two was based on groups of eight children or part thereof, taking full account of the statutory staff to children ratio of 1:8 applicable to day crèches.

10. Some members had expressed concern that many kindergarten-cum-child care centres and child care centres might encounter financial difficulties with the proposed level of subsidy under KCCCSS. They pointed out that due to a decline in student population, many kindergartens and kindergarten-cum-child care centres might operate small classes upon harmonisation. Subsidies provided on a pro-rata basis would not be sufficient to meet the expenses for operating small classes of nine pupils or less.

11. The Administration had explained that the average enrolment rate in child care centres was about 80%. Child care centres with an enrolment rate of 70% or above would receive a higher level of grant under KCCCSS than the 5% Subsidy Scheme. In the course of consultation, the Administration had received little opposing views about harmonisation of pre-primary services and its financial implications on the operation of existing child care centres. Of some 480 child care centres in operation, about 390 had indicated intention to be registered as kindergartens upon harmonisation. The Administration had further explained that non-profit-making child care centres and kindergartens could apply for grants under the Lotteries Fund if they met certain criteria, such as providing full-day programmes, or services until 6:00 pm and during school holidays and inclement weather.

Financial assistance for parents

12. Parents of children attending day crèches and day nurseries were eligible for the Child Care Centre Fee Assistance Scheme (CCCFAS) if they could demonstrate a social need for child care, for example both parents having to go to work. The maximum level of assistance was the actual fee charged by a child care centre or the maximum fee approved by SWD, whichever was the lower. The actual level of assistance received by eligible parents was determined by a means-tested sliding scale with a parental contribution based on household income with no pre-set ceiling.

13. As for parents of children attending kindergartens (both full-day and half-day programmes), they could apply for the Kindergarten Fee Remission Scheme (KGFRS). Parents did not have to demonstrate social needs to be eligible for KGFRS. The maximum level of assistance was the actual fee

charged by a kindergarten or the weighted average fee of all non-profit-making kindergartens, whichever was the lower. KGFRS was also means-tested and provided three levels of assistance, i.e. 100%, 75% or 50% fee assistance.

14. Upon harmonisation, CCCFAS was cancelled and one single means-testing mechanism was put in place for determining financial assistance for all pre-primary children based on the enhanced KGFRS, renamed as Kindergarten and Child Care Centre Fee Remission Scheme (KCFRS). KCFRS covered the following categories of children –

- (a) children aged below three attending full-day service in child care centres with social needs were eligible for full-day fee assistance;
- (b) children aged three to six attending full-day service in child care centres or kindergartens with social needs were eligible for full-day fee assistance; and
- (c) children aged three to six attending full-day service without social needs or half-day programmes in child care centres or kindergartens were eligible for half-day fee assistance.

15. KCFRS included air-conditioning and meal charges in the monthly fee on which the fee assistance was based. The Administration undertook to apply the “no worse-off” principle to existing CCCFAS and KGFRS recipients, i.e. those receiving less assistance under KCFRS would be allowed to opt to continue receiving assistance under the previous CCCFAS and KGFRS until the children concerned left the kindergartens/day nurseries/day crèches and proceeded to primary one.

16. While members welcomed the Administration’s undertaking of applying the “no worse-off” principle to CCCFAS recipients, a majority of them had expressed concern about the financial implications on future applicant families.

17. To address members’ concern, the Administration had provided a comparison of the remission levels under CCCFAS and KCFRS for a four-person family or a three-person single parent family with different levels of income for six different target groups. Members noted that based on the information provided by the Administration, families with relatively low income, e.g. an income level between \$8,056 and \$11,000, might receive less financial assistance under KCFRS even if they had social needs to send their children to attend full-day service. Members were worried that these families might be forced to send their children to attend half-day service because of a lack of means.

18. The Administration had explained that when the fee remission system of the pre-primary services was aligned, low income families would continue to be eligible for 100%, 75% and 50% fee remission. Families under the

Comprehensive Social Security Assistance Scheme which had social needs to place their children in day nurseries and day crèches would be given a special grant to pay the fees charged in full. In actual money term, a four-person family with a monthly income level of \$8,055 or below would receive full remission; those with a monthly income level between \$8,056 and \$11,710 would receive 75% remission; and those with a monthly income level between \$11,711 and \$21,512 would receive 50% remission.

19. The Finance Committee approved the KCCCCSS and KCFRS on 24 June 2005. At members' request, the Administration had undertaken to explore any possible measures to support the low income applicant families, which would be affected by the change of the financial assistance scheme, and revert to the Panel with plausible suggestions.

Removal of the social needs test

20. The Panel followed up on the impact of the alignment of the fee remission system of the pre-primary services and received deputations at its meetings on 10 April and 21 July 2006. All deputations expressed concern about the imposition of the social needs test for eligibility for full-day fee remission under KCFRS after harmonisation of the pre-primary services. Members sought clarification from the Administration on the reasons for imposing the social needs test.

21. The Administration explained that the social needs test had all along been used by SWD in assessing the eligibility of applicants for CCCFAS since the early 1980s, and upon harmonisation of the pre-primary services, the same social needs test was adopted in KCFRS to cover all eligible children attending kindergartens and child care centres. The Administration considered that at the age of three to six, there was no educational basis to support whole-day schooling. The provision of full-day kindergartens and child care centres was to add further care in response for social needs or parental choice. The provision of financial assistance to parents under KCFRS should therefore be calculated on the basis of the fees charged for half-day classes at kindergartens. The full-day rate of fee remission should only be payable when the applicant family had passed the social needs test. This requirement had been put forward for consultation with the pre-primary service sector and at the meetings of the Panel on 13 February 2003 and 14 March 2005, and was finally approved by the Finance Committee on 24 June 2005.

22. Members pointed out that at the Finance Committee meeting, they had expressed support for the social needs test criterion on the condition that the Administration would explore possible measures to support the low-income applicant families which would be affected by the change of the financial assistance scheme. Members noted with concern that many parents had reportedly decided not to send their children to attend day nurseries and full-day classes in kindergartens as they were unable to pass the social needs

test. Members requested the Administration to remove the social needs test from KCFRS from the 2006-2007 school year onwards.

23. The Administration explained that it was reviewing pre-primary education and the arrangement of financial assistance for parents was one of the issues under review. As the review was expected to be completed on or before mid-2007, the Administration considered it undesirable to make piecemeal changes before then. In the meantime, the Administration would exercise more flexibility in assessing the social needs of applicant families, simplify the application procedures and improve the administrative arrangements under KCFRS. EMB estimated that some 80% unsuccessful applications for full-day fee assistance would become eligible under the modified assessment criteria.

24. While members welcomed the improvement measures undertaken by the Administration, they remained of the view that the social needs test should be removed from KCFRS.

Latest development

25. The Chief Executive announced in his Policy Address 2006-2007 a new education initiative to subsidise early childhood education by way of a voucher system. According to the Administration's proposed arrangements, beginning in the 2007-2008 school year, parents will be subsidised directly in the form of a voucher for their children enrolled in eligible kindergartens or kindergarten-cum-child care centres. The voucher value will be \$13,000 in 2007-2008 and progressively increase to \$16,000 in the 2011-2012 school year to take account of inflation, salary increment and qualification creep over the years. Of the \$13,000 subsidy, at least \$10,000 must be used on fee subsidy, with the remaining subsidy spent on teacher training. By the 2011-2012 school year, the whole amount of the voucher will go towards fee reduction.

26. Under the proposed scheme, any local non-profit-making (NPM) kindergartens that charge fees not more than \$24,000 per student per annum will be eligible for redeeming the "education voucher" according to their student intake. Upon full implementation of the scheme in 2011-2012, only accredited NPM kindergartens may redeem the voucher.

27. At the briefing by the Secretary for Education and Manpower on the Chief Executive's Policy Address 2006-2007, members raised various concerns about the proposed education voucher system. The major views and concerns expressed by members are summarised below.

Eligibility criteria

28. Members considered that one of the objectives of an education voucher

system was to increase parental choice. The prescribed criteria that only NPM kindergartens charging tuition fee not more than \$24,000 a year would be eligible for redeeming the voucher would limit parental choice in choosing kindergartens suitable for their children. Since 90% of students aged three to six would benefit from the proposed scheme and 80% of kindergartens would be eligible for redeeming the voucher, members called on the Administration to refine the proposed scheme to enable the remaining 10% of students to enjoy the benefit as well. Members were of the view that both profit-making (PM) and NPM kindergartens should be eligible for redeeming the voucher provided that they meet the quality standards prescribed by the Administration.

29. The Administration explained that it had all along adopted the policy of subsidising only NPM kindergartens in the early childhood education sector. NPM kindergartens were required to reinvest operating surplus to improve the quality of education. However, in the case of PM kindergartens, they had the discretion to use their surplus. As the use of surplus by PM kindergartens was not regulated, the Administration considered it appropriate, in the interest of proper use of public funds, to set the prescribed criteria that only NPM kindergartens charging not more than \$24,000 a year would be eligible for redemption of the proposed voucher.

30. The Administration also envisaged that PM kindergartens intending to become eligible for redeeming the voucher would proactively plan to switch to operate on a NPM basis during the transition years. The Administration estimated that some 150 PM kindergartens would change to operate on a NPM basis. The Administration would review the implementation of the voucher scheme in the light of the experience gained in 2011-2012.

Tuition fees

31. As the amount of voucher redeemed would depend on the student intake, members were concerned about the possibility of kindergartens spending substantial resources on promotional activities to enhance enrolment. This would lead to an increase in tuition fees in order to cover the expenditure in this regard.

32. The Administration explained that pre-primary education providers in receipt of subvention under various subsidy schemes were required to comply with relevant rules and regulations on tuition fee adjustments and staff administration matters. They were required to submit proposals with justifications for increase of fees to EMB for approval. The fees and salaries in individual kindergartens in the 2006-2007 school year would serve as the basis for considering any proposed increases in the 2007-2008 school year.

Quality control

33. Members expressed concern about the quality of kindergartens eligible

for redeeming the voucher. The proposed voucher system would have the inadvertent impact of assisting NPM kindergartens which did not have a good track record to survive, whereas PM kindergartens providing good quality education might encounter enrolment problem.

34. The Administration explained that the objectives of the new initiative were to provide direct subsidies for parents, enhance the quality of pre-primary education and professional upgrading of principals and teachers, and develop an effective quality assurance mechanism in the long run. Only the accredited NPM kindergartens might redeem the vouchers upon full implementation of the scheme in the 2011-2012 school year. EMB would provide support to kindergartens to improve their standards. The Administration had also set aside \$68 million for the provision of a one-off grant to all kindergartens in the 2007-2008 school year to purchase teaching resources, library books and other learning resources.

Remunerations

35. Members noted that upon the implementation of the education voucher scheme, the salaries of pre-primary teachers would be deregulated. Members were concerned that this arrangement would not be conducive to the development of early childhood education. The Administration was urged to take the opportunity to rationalise the remunerations for kindergarten teachers in order to further upgrade the quality of early childhood education.

36. In the Administration's view, it was appropriate to let the market decide the remunerations for kindergarten teachers, as some operators would welcome the provision of more flexibility in salary administration matters and might wish to offer more competitive salaries to teachers with a degree in education or outstanding performance in teaching. The Administration pointed out that before the full implementation in the 2011-2012 school year, all teachers and principals in NPM or PM kindergartens would be subsidised to upgrade their professional development.

Research on education voucher system

37. At the request of the Panel, the Research and Library Services Division of the Legislative Council Secretariat conducted in 2002 a research on education voucher system in selected overseas places. The research covered Milwaukee and Cleveland in the United States, the United Kingdom, Chile, and Columbia. The research report was presented to the Panel on 15 April 2002, and re-circulated to members of the Panel together with the minutes of the meeting vide LC Paper No. CB(2)139/06-07 on 23 October 2006. For members' easy reference, a comparison analysis of the education voucher programmes implemented in the five selected places is extracted from the research report and attached in **Appendix I**.

Relevant papers

38. A list of the relevant papers on the Legislative Council website is in **Appendix II**.

Council Business Division 2

Legislative Council Secretariat

9 November 2006

Panel on Education

Appendix I

A Comparative Analysis of Education Voucher Programmes Studied

Education Voucher Programme	Background	Objectives	Features	Evaluation of Education Voucher Programmes	
				Desirable Outcomes	Undesirable Outcomes
Chile (1980 - present)	<p>~ Suggested reasons for introducing the education voucher programme:</p> <p>(a) To form part of a 'de-governmentalization' free market package in order to meet requirements of international economic assistance;</p> <p>(b) To appeal to citizenry unhappy with centralized bureaucracy; and</p> <p>(c) To serve a political purpose: to de-politicize Chilean society.</p>	<p>~ Improve quality of education; and</p> <p>~ Transfer responsibility for the provision of education to municipal governments.</p>	<p>~ All primary and secondary students were eligible;</p> <p>~ Both public and private subsidized schools participated;</p> <p>~ Sufficient voucher value to cover all school expenditures; and</p> <p>~ 'Top-up' allowed but not a major source of school income.</p>	<p>~ Provision of education increased;</p> <p>~ Parental choice increased;</p> <p>~ Competition among private and public schools increased;</p> <p>~ Increased competition led to improved school quality but such impact was small; and</p> <p>~ Better student performance achieved by private schools (possibly due to keeping out hard-to-manage students).</p>	<p>~ Middle- and upper-class being the major beneficiaries;</p> <p>~ Cream-skimming by private schools;</p> <p>~ Worsened academic results for lower-class students;</p> <p>~ Inconclusive evidence to show private schools are more effective and superior; and</p> <p>~ Inconclusive evidence to show overall quality of education had improved.</p>
Milwaukee (1989 - present)	<p>~ In response to parental dissatisfaction with the quality of public schools.</p>	<p>~ Provide educational opportunities for students of low-income families to attend private schools.</p>	<p>~ Education vouchers limited to low-income students from kindergarten to grade 12;</p> <p>~ Only private schools participated;</p> <p>~ Sufficient voucher value to cover all school expenditures; and</p> <p>~ No 'top-up' required of parents.</p>	<p>~ Provision of education increased;</p> <p>~ Parental choice increased;</p> <p>~ Improved accessibility to private schools by lower-class students;</p> <p>~ No cream-skimming as admission to schools by random selection; and</p> <p>~ Involvement of parents in their children's education increased.</p>	<p>~ Closure of participating schools due to unstable financial conditions;</p> <p>~ Unused capacity owing to low programme awareness and competition from other educational programmes;</p> <p>~ Higher tax levied on property taxpayers;</p> <p>~ Inconclusive evidence to show better student performance in private schools; and</p> <p>~ Inconclusive evidence to show if ethnic segregation had improved.</p>
Colombia (1992 - present)	<p>~ Formed part of the government's decentralization effort in the early 1990s - a general period of reform and liberalization in Colombia.</p>	<p>~ Close the gap between the relatively high primary school enrolment rate and relatively low secondary school enrolment rate;</p> <p>~ Expand choices for the poorest families; and</p> <p>~ Improve equity.</p>	<p>~ Education vouchers limited to low-income students graduated from public primary schools;</p> <p>~ Only private secondary schools participated;</p> <p>~ Sufficient voucher value to cover school expenditures¹; and</p> <p>~ 'Top-up' allowed but not a major source of school income.</p>	<p>~ Provision of education increased;</p> <p>~ Parental choice increased;</p> <p>~ Improved accessibility to private schools by lower-class students;</p> <p>~ No cream-skimming as admission to schools by raffle; and</p> <p>~ Comparable quality of education maintained by both public and private schools.</p>	<p>~ Please see note 1.</p>
Cleveland (1996 - present)	<p>~ In response to parental dissatisfaction with the quality of public schools.</p>	<p>~ Provide educational opportunities for students of low-income families to attend private schools.</p>	<p>~ Education vouchers limited to low-income children from kindergarten to grade 3;</p> <p>~ Education vouchers could be used from kindergarten to grade 8;</p> <p>~ Private schools in Cleveland Municipal School District and public schools in adjacent districts were eligible for participation;</p> <p>~ Insufficient voucher value to cover all school expenditures; and</p> <p>~ 'Top-up' required of parents but limited to 10% of voucher value.</p>	<p>~ Provision of education increased;</p> <p>~ Parental choice increased;</p> <p>~ Improved accessibility to private schools by lower-class students; and</p> <p>~ No cream-skimming as admission to schools by random selection.</p>	<p>~ Low-income students from grades 4 or above could not benefit from the programme;</p> <p>~ High administration cost;</p> <p>~ Inconclusive evidence to show better student performance in private schools; and</p> <p>~ Inconclusive evidence to show if ethnic segregation had improved.</p>
United Kingdom (1996 - 1997)	<p>~ Suggested reasons for introducing the nursery voucher programme:</p> <p>(a) A wide recognition of benefits derived from the provision of pre-school education for all children;</p> <p>(b) Calls for a national pre-school policy; and</p> <p>(c) Serving electoral interests.</p>	<p>~ Give children a better start to their schooling;</p> <p>~ Provide parental choice; and</p> <p>~ Encourage diversity.</p>	<p>~ Education vouchers to all four-year-olds for pre-school education;</p> <p>~ All pre-school education providers, private or public, participated;</p> <p>~ Insufficient voucher value to cover school expenditures in some local areas ; and</p> <p>~ Might require substantial 'top-up' by parents.</p>	<p>~ Not applicable.</p>	<p>~ School development affected due to unstable source of funding;</p> <p>~ Inequality of choice due to insufficient voucher value;</p> <p>~ Inauthentic choice due to insufficient places in nursery schools;</p> <p>~ Competition on unequal grounds among public and private schools due to different funding arrangements; and</p> <p>~ Inconclusive evidence to show provision of education had increased.</p>

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Appendix I

Note 1: Initially, the value of education voucher was sufficient to cover tuition fees. However, a recent research study by Angrist et al. (2001) showed that as at 1998, the value of education vouchers covered approximately half of the cost of a private secondary school. It was uncertain whether or not the insufficient value of education vouchers had led to any undesirable outcomes as there was no information available to us.

Council Business Division 2
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**List of relevant documents on
financial assistance for pre-primary service providers and
parents of children receiving pre-primary services**

Council/Committee	Date of meeting	Paper / Report
Panel on Education	15.04.2002	RP06/01-02 CB(2)1861/01-02
Panel on Education	14.3.2005	CB(2)1324/04-05 CB(2)1030/04-05(01) CB(2)1240/04-05(01)
Bills Committee on Child Care Services (Amendment) Bill 2005	12.5.2005	CB(2)1689/04-05 HWF CR2/5091/05 Pt. 2 CB(2)1536/04-05(01)
Bills Committee on Child Care Services (Amendment) Bill 2005	23.5.2005	CB(2)1790/04-05
Bills Committee on Child Care Services (Amendment) Bill 2005	31.5.2005	CB(2)2067/04-05 CB(2)1712/04-05(01)

Council/Committee	Date of meeting	Paper / Report
Bills Committee on Child Care Services (Amendment) Bill 2005	6.6.2005	CB(2)2120/04-05 CB(2)1782/04-05(01)
Finance Committee	24.6.2005	FC125/04-05 FCR(2005-06)23
Panel on Education	10.4.2006	CB(2)1881/05-06 CB(2)1667/05-06(03)
Panel on Education	12.6.2006	CB(2)2643/05-06 CB(2)2700/05-06(01)
Panel on Education	21.7.2006	CB(2)18/06-07 CB(2)2796/05-06(03)
Panel on Education	19.10.2006	CB(2)28/06-07(01) The 2006-2007 Policy Address booklet entitled "Proactive Pragmatic Always People First" (paragraphs 43-48 in pages 15-17) The 2006-2007 Policy Agenda booklet (pages 44- 48)