

## **ITEM FOR FINANCE COMMITTEE**

### **HEAD 170 – SOCIAL WELFARE DEPARTMENT**

#### **Subhead 179 Comprehensive social security assistance scheme**

### **HEAD 173 – STUDENT FINANCIAL ASSISTANCE AGENCY**

#### **Subhead 228 Student financial assistance**

Members are invited to approve the reinstatement of an annual adjustment mechanism for the fee remission ceilings under the Kindergarten and Child Care Centre Fee Remission Scheme with effect from the 2009/10 school year.

### **PROBLEM**

We need to reinstate an annual adjustment mechanism for the fee remission ceilings under the Kindergarten and Child Care Centre Fee Remission Scheme (KCFRS) to ensure needy children's continued access to a reasonable choice of affordable kindergartens (KGs), pending an overall review of the Pre-primary Education Voucher Scheme (PEVS).

### **PROPOSAL**

2. To enhance financial support for needy families thereby ensuring their continued access to a reasonable choice of affordable KGs, the Secretary for Education proposes to reinstate with effect from the 2009/10 school year (sy) an annual adjustment mechanism for the KCFRS fee remission ceilings for KG classes on the basis of the respective weighted average fees (WAFs) of the non-profit-making (NPM) half-day and whole-day KGs eligible for PEVS.

**/JUSTIFICATION .....**

**JUSTIFICATION*****Revised KCFRS fee remission ceilings after PEVS***

3. With funding approval by this Committee in December 2006 (vide FCR(2006-07)29), PEVS has been introduced since the 2007/08 sy to provide direct fee subsidy on a non-means tested basis for parents with children attending eligible local NPM KGs. While PEVS does not set out to cover the full tuition fee of KG education, particularly in view of the diversity and heterogeneity of the KG sector, families with financial difficulties may apply for fee remission through the means-tested KCFRS for additional financial support<sup>1</sup>.

4. Before the introduction of PEVS, the KCFRS fee remission ceilings were annually adjusted according to the monthly WAF of the half-day and whole-day NPM KGs<sup>2</sup>. Following the implementation of PEVS, the ceilings have been fixed at \$16,000 per student per annum (pspa) for half-day KGs and \$25,400 pspa for whole-day KGs and will remain at those levels until the 2011/12 sy. The schedule of maximum fee assistance level under the KCFRS between the 2007/08 sy and the 2011/12 sy is in Enclosure.

Encl.

***The case for reinstatement***

5. PEVS as originally planned intends to consolidate various financial assistance schemes<sup>3</sup> for KG children into one voucher in the 2011/12 sy, i.e. when the value of voucher reaches \$16,000 pspa and is fully dedicated towards fee subsidy. On this basis, the KCFRS by then will no longer be needed for KG children, save those attending whole-day KG classes due to “social need”<sup>4</sup> and those attending whole-day child care centre, day nursery or day crèche.

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1 The eligibility for fee remission under KCFRS has been redefined as set out in FCR(2006-07)29 following the implementation of the PEVS. With effect from the 2007/08 sy, fee remission under KCFRS is available to KG children attending whole-day classes due to “social need” and those attending whole-day child care centre, day nursery or day crèche. As a transitional arrangement, needy families with children attending eligible half-day KGs can also apply for KCFRS up to the 2010/11 sy. For details please refer to paragraph 17 below.

2 In the 2006/07 sy, for example, the WAFs charged by NPM KGs were \$1,379 per student per month (pspm) for half-day KGs and \$2,301 pspm for whole-day KGs.

3 They include the Kindergarten and Child Care Centre Subsidy Scheme (KCSS) which had ceased to operate for KGs after PEVS and KCFRS for half-day KGs. PEVS also intends to explore the feasibility of subsuming the amount of subsidies on rents, rates and government rents into the voucher value after the 2011/12 sy.

4 Eligibility includes child’s parents being full-time employees, child’s father or mother holding a two-way permit from the Mainland, parents having to take care of an elderly family member aged 70 or above, families with twins/triplets or with two siblings aged below six or four children aged below 12, etc.

6. The fee remission ceilings under KCFRS fixed at \$16,000 and \$25,400 pspa for half-day KGs and whole-day KGs respectively after the introduction of PEVS have limited parental choice. Compared to some 52.9% of the half-day KGs and 59.8% of the whole-day KGs charging fees below the respective WAFs in the 2006/07 sy (i.e. before the launch of the PEVS), the percentages of KGs charging tuition fee below the fixed fee remission ceilings under PEVS were 54% (half-day) and 26% (whole-day) in the 2007/08 sy, and further dropped to 38.6% (half-day) and 18% (whole-day) in the 2008/09 sy.

7. More needy families requiring additional financial support through KCFRS now need to top up by a greater amount of tuition fees, compared to the situation prior to the introduction of PEVS. In the 2006/07 sy, 78% of the whole-day KG children receiving full fee remission and 76% of the half-day KG children receiving full fee remission under KCFRS did not need to top up the tuition fee. In the 2008/09 sy, the respective percentages fell to 46% and 64%.

8. The proposal of restoring the annual adjustment for KCFRS fee remission ceilings based on the respective WAFs will ensure that needy families are given a reasonable choice of KGs charging fees within the fee remission ceilings and that the KG education would be made available to needy families in a more affordable manner. Adopting the notional annual WAF of the NPM PEVS KGs in the 2008/09 sy as the fee remission ceilings, the percentages of KGs within the fee remission ceilings will increase from 38.6% (half-day) and 18% (whole-day) to 59% and 56.6% respectively, while the percentages of full fee remission beneficiaries not requiring to top up the tuition fee will increase from 64% (half-day) and 46% (whole-day) to 75% and 71% respectively.

9. Consistent with the established arrangements, there will continue to be three levels of assistance under KCFRS (i.e. 100%, 75% or 50% fee remission). The level of assistance will be determined by a means test based on the Adjusted Family Income, calculated on the basis of the gross annual household income and household size<sup>5</sup>. The fee remission amount for an eligible student will continue to be determined by the actual fee charged by the KG or the fee remission ceiling, whichever is the less, multiplied by the level of assistance and after deduction of the subsidy from the voucher<sup>6</sup>. The fee remission ceiling is capped at the annual WAF of half-day NPM PEVS KGs or the annual WAF of whole-day NPM PEVS KGs for

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<sup>5</sup> For example, in the 2008/09 sy, a four-member family with gross monthly income of \$8,398 or below will be eligible for full (100%) fee remission; between \$8,399 and \$12,208, 75% fee remission; between \$12,209 and \$22,429, 50% fee remission; and over \$22,429, no fee remission.

<sup>6</sup> The actual fee remission amount is calculated by the following formula: (the lesser of actual fee or fee remission ceiling) x level of assistance minus voucher value.

students with “social need”. Beneficiaries of KCFRS, including those eligible for full fee remission but who choose to attend KGs charging above the revised fee remission ceilings, will have to top up any gap between the remission amounts and the school fees with their own resources (as is the present case). Children who choose to attend KGs not joining PEVS will continue to be ineligible for fee remission under KCFRS. Children under the Comprehensive Social Security Assistance (CSSA) Scheme in receipt of a special grant to cover KG fees on top of the subsidy from the voucher will be given additional financial support under CSSA up to the same fee remission ceilings<sup>7</sup>.

### ***Implementation***

10. Subject to Members’ approval, we will reinstate an annual adjustment mechanism for KCFRS fee remission ceilings starting from the 2009/10 sy. Pending the outcome of the review on PEVS to commence later in the year, other policy parameters of PEVS, including the value of the voucher, would remain unchanged.

### **FINANCIAL IMPLICATIONS**

11. The financial implications of reinstating the KCFRS fee remission ceilings to the WAF levels may vary depending on the KG student population eligible for PEVS, number of such students requiring additional financial support through KCFRS and the weighted average levels of tuition fees of the eligible KGs, etc. Based on the latest data available to us, we estimate that for the next four financial years, we would incur additional KCFRS expenditure of around \$60 million in 2009-10, \$92 million in 2010-11, \$100 million in 2011-12 and \$116 million in 2012-13. The estimation is made with reference to the distribution of 50%, 75% and 100% fee remission beneficiaries of KCFRS (as at end February 2009) and the two-year average rate of increase in WAF for both half-day and whole-day NPM PEVS KGs in the 2007/08 and 2008/09 sy.

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<sup>7</sup> As foreshadowed in FCR(2006-07) 29, we have explored with Social Welfare Department whether and how the PEVS should be expanded to cover KG children on CSSA. With effect from the 2009/10 sy, CSSA recipients should receive fee subsidies under PEVS, while the shortfall in tuition fees (if any) would be met with by CSSA assistance in case the KGs are charging above the PEVS fee subsidy (subject to the CSSA assistance provided for the purpose being capped at the KCFRS fee remission ceilings applicable to half-day and whole-day NPM KGs respectively).

12. Similarly, the ceilings of the special grant for pre-primary education of CSSA students would be revised accordingly to tie in with the reinstatement of the KCFRS fee remission ceilings to the WAF levels. We estimate that such a change would increase the CSSA expenditure by \$25 million in 2009-10, \$44 million in 2010-11, \$56 million in 2011-12 and \$68 million in 2012-13.

13. We have earmarked sufficient provisions in the 2009-10 Estimates for the reinstatement proposal and will include the necessary requirements in the Draft Estimates of subsequent years.

## **PUBLIC CONSULTATION**

14. The Legislative Council (LegCo) Panel on Education at its meeting on 20 March 2009, amid other views expressed on PEVS, unanimously asked for an early review on the fee remission ceilings under KCFRS to relieve the financial burden of needy families. Reinstatement of the adjustment mechanism for the fee remission ceilings is a positive response to the request for imminent measures to address the concern of the needy families regarding choice of KGs within the fee remission ceilings. We consulted major kindergarten associations and briefed LegCo's Education Panel on 22 June 2009. They were generally supportive of the proposal.

## **BACKGROUND**

15. In the 2006-07 Policy Address, the Chief Executive announced a major financial commitment to further strengthen the quality of pre-primary education by providing direct fee subsidy for parents through PEVS. Financial support is also available to encourage KG principals and teachers to upgrade their professional qualifications.

16. With the approval of this Committee (vide FCR(2006-07)29), PEVS has been implemented since the 2007/08 sy on the following basis-

- (a) only children attending local NPM KGs or relevant classes in local NPM KG-cum-child care centres are eligible to join PEVS, save the three-year transitional period up to the end of the 2009/10 sy for students of local private independent (PI) KGs;

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- (b) the voucher value dedicated towards fee subsidies would be \$10,000 pspa in the 2007/08 sy, increasing gradually to \$16,000 pspa in the 2011/12 sy. The voucher should only be redeemed by KGs charging a school fee not exceeding \$24,000 pspa for a half-day place or not exceeding \$48,000 pspa for a whole-day place;
- (c) all KGs are subject to a quality assurance mechanism so that starting from the 2012/13 sy only KGs meeting the prescribed standards may redeem the voucher;
- (d) all KGs should enjoy full discretion in determining teacher salaries, subject to market forces;
- (e) a training subsidy, as subsumed in the voucher amount or on its own as the case may be, is provided to serving KG principals and teachers to upgrade their professional qualifications; and
- (f) modifications are made to, and where appropriate transitional arrangements put in place under, KCSS and KCFRS as a consequence of the introduction of PEVS, including the changes to the KCFRS as set out in paragraph 17 below.

17. The following changes have been made to the KCFRS with the introduction of PEVS –

- (a) the fee remission ceilings would be capped at \$16,000 pspa for half-day KGs and \$25,400 pspa for whole-day KGs with effect from the 2007/08 sy and would remain at those levels until the end of the 2011/12 sy. The actual fee remission for eligible KG children would be part of or the entire amount of the actual fee depending on the level of assistance assessed using the Adjusted Family Income formula (subject to the fee remission ceilings of \$16,000 and \$25,400 pspa for half-day and whole-day KGs respectively), minus the voucher value dedicated towards fee subsidy for that school year;
- (b) subject to the transitional arrangement in (c) below, with effect from the 2007/08 sy, the KCFRS would only be offered to two groups of clients: (i) needy parents with children above the age of two years and eight months attending whole-day KGs classes in eligible local KGs due to “social need”; and (ii) needy parents with children attending whole-day day crèches, day nurseries or relevant classes in KG-cum-child care centres who are not covered under PEVS;

/(c) .....

- (c) transitional/grandfathering arrangements would be in place for the following groups: (i) needy parents with children from the age of two years and eight months attending half-day KG classes in eligible local NPM KGs during the period from the 2007/08 sy to the end of the 2010/11 sy (this transitional arrangement would cease in the 2011/12 sy when the voucher value will be increased to \$16,000 pspa and fully dedicated towards fee subsidy) or KG classes in PI KGs eligible for voucher redemption during the transitional period from the 2007/08 sy to 2009/10 sy; (ii) pre-existing KCFRS beneficiaries attending PI KGs or NPM KGs which are not eligible under the PEVS; (iii) pre-existing KCFRS beneficiaries receiving fee remission above the revised fee remission ceilings in (a) above; and (iv) needy parents with children enrolled as of the 2007/08 sy to eligible local NPM KGs, which are affected by school fee increase solely due to cessation of the KCSS, receiving fee remission above the fixed fee remission ceilings stated in (a) above until their completion of pre-primary education; and
- (d) apart from (c)(ii) above, students who choose to attend PI KGs or NPM KGs which are not eligible under the PEVS will no longer be eligible for fee remission under the KCFRS.

18. PEVS is progressively meeting its target to cover 90% of KG students and 80% of KGs. As at September 2008, 820 or 85.1% of 964 KGs have joined PEVS, including 44 PI KGs joining the scheme under the three-year transition arrangement up to the end of the 2009/10 sy. 116 900 or 85% out of the total of 137 600 KG students are benefiting from direct fee subsidy under PEVS in the 2008/09 sy. Of these 116 900 students, about 34 440 (as at end February 2009) received additional financial assistance under KCFRS.

**Schedule of Maximum Assistance Level under the  
Kindergarten and Child Care Centre Fee Remission Scheme (KCFRS)**

A schedule of maximum assistance level for half-day kindergarten (KG) classes under the KCFRS is as follows –

<b>School year</b>	<b>Maximum fee assistance under KCFRS before deducting the amount of the voucher dedicated towards fee subsidy</b>	<b>Amount of the voucher dedicated towards fee subsidy</b>	<b>Maximum fee assistance under KCFRS</b>
	(\$ pspa)	(\$ pspa)	(\$ pspa)
2007/08	16,000	10,000	6,000
2008/09	16,000	11,000	5,000
2009/10	16,000	12,000	4,000
2010/11	16,000	14,000	2,000
2011/12	16,000	16,000	0

Note –

The maximum fee assistance per annum for a whole day kindergarten place is equal to “\$25,400 or the actual tuition fee charged by KG (whichever is the less) minus the voucher value dedicated towards fee subsidy”.

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