

A. Introduction

The Audit Commission ("Audit") conducted a review of the kindergarten ("KG") services administered under the Pre-primary Education Voucher Scheme ("Voucher Scheme"). The Voucher Scheme was introduced by the Education Bureau ("EDB") with effect from the 2007-2008¹ to alleviate parents' financial pressure and raise the quality of KG education. The Voucher Scheme is non-means-tested and provides parents with direct fee subsidy in the form of a voucher to choose and access all KGs participating in the Voucher Scheme ("Scheme KGs"). For the first four years of 2007-2008 to 2010-2011, Scheme KGs were required to spend the balance of the voucher value on professional upgrade of teachers and principals.

2. In Hong Kong, KG education refers to the three-year KG programme for children from three to six years old. Although KG education is not compulsory, most parents enrol their children in the programme. All KGs in Hong Kong are privately run. They are either non-profit-making ("NPM") or private-independent ("PI"). Subject to a transitional period of three years from 2007-2008 to 2009-2010, only NPM local KGs are eligible to join the Voucher Scheme. As at September 2012 (start of the 2012-2013 school year), the participation rate was 77% in terms of KGs (735 out of 861 local KGs) and 79% in terms of students (129 000 out of 164 000 students).

3. There is a great diversity amongst the KGs in terms of their operating scale, school premises and facilities, rentals and other operating costs, qualifications and number of teachers, staff salaries and school fees charged, etc. Parents have the freedom to choose KGs to suit their family needs. As at September 2012 (start of school year 2012-2013), there were 957 KGs (decreased from 989 KGs as at September 2007). Some 380 (40%) of them were small in size, each employed less than 13 teachers and enrolled less than 100 students. Of these 957 KGs, 861 offered a local curriculum (i.e. local KGs) and 96 offered an international curriculum (i.e. non-local KGs).

4. **Hon Kenneth LEUNG** declared that his child was previously a Scheme KG student.

¹ Unless otherwise specified, all years mentioned in this Report refer to school years, which start on 1 September of a year and end on 31 August of the following year.

5. **Mr Eddie NG Hak-kim, Secretary for Education**, said in his opening statement that:

- the EDB welcomed that Audit recognized the contributions of the Voucher Scheme in easing the financial burden on parents and raising the professional qualifications of KG principals and teachers;
- under the Voucher Scheme, government funds were not paid as subventions to the KGs but were provided as direct subsidy to parents. With the significant investment in the Voucher Scheme, the EDB had instituted a package of measures to regulate the financial operation of Scheme KGs to forestall abuse and to ensure that KG expenditure was incurred to support teaching and learning activities. To safeguard the interests of parents, Scheme KGs were required to publish their key operational details, such as miscellaneous fees charged, in the KG Profile issued by the EDB from time to time to the public;
- since the implementation of the Voucher Scheme in 2007-2008, the EDB had undertaken reviews of the Voucher Scheme in 2009 and again in 2010. As a result of the reviews, a series of enhancement measures had been introduced with a view to ensuring the quality of KG education. The EDB would continue to work closely with the KG sector and other stakeholders to further enhance the Voucher Scheme. The Director of Audit's Report ("Audit Report") on the Voucher Scheme had presented a good opportunity for the EDB to further enhance the Voucher Scheme. The EDB would consider the Audit recommendations in detail and take follow-up actions as appropriate;
- providing practicable 15-year free education and better quality KG education was one of the priorities of the current-term Government. In this regard, the Audit findings of and recommendations on the Voucher Scheme, particularly with regard to the governance of Scheme KGs, had provided valuable reference materials; and
- the Committee on Free KG Education, which was set up on 8 April 2013 to make concrete recommendations to the EDB on the practicable implementation of free KG education, would study the Audit recommendations in due course.

The full text of the Secretary for Education's opening statement is in *Appendix 11*.

B. Overview of the Voucher Scheme and its financial features

Charging of school fees and miscellaneous fees by Scheme KGs

6. The Committee considered that although the Government had spent some \$8.5 billion on the Voucher Scheme over the five school years of 2007-2008 to 2011-2012, the Voucher Scheme had failed to fully achieve one of its objectives to alleviate parents' financial pressure. This was evidenced by the fact that according to paragraph 2.19(b) of the Audit Report, in 2012-2013, school fees of 68 Scheme KGs were less than the fee subsidy limit of \$16,800. In other words, only parents of 68 out of 735 Scheme KGs were not required to pay any school fee. Such a situation was aggravated by the fact that some Scheme KGs had charged the miscellaneous fees which could be as high as 24% to 44% of the school fees according to paragraph 2.25 of the Audit Report.

7. **Secretary for Education** responded that the value of the voucher had helped parents to defray a large part of the tuition fee of KG education, i.e. the average tuition fee for half-day ("HD") classes paid by parents in 2012-2013 was \$3,500 per student per annum ("pspa") as opposed to \$15,169 prior to the introduction of the Voucher Scheme in 2007-2008. In this regard, the EDB considered that the Voucher Scheme had achieved a first phase success in alleviating parents' financial pressure.

8. **Mrs Betty IP, Deputy Secretary for Education**, supplemented and the **Secretary for Education** elaborated in his reply dated 31 May 2013 to the Committee (in *Appendix 12*) that:

- when the Voucher Scheme was introduced in 2007-2008, school fees for only four Scheme KGs were less than the fee subsidy limit of \$10,000 pspa, i.e. parents had to pay on average, \$7,200 (for HD class) pspa in 2007-2008, as compared with \$15,169 in 2006-2007;
- because the scheduled increase in the fee subsidy provided under the Voucher Scheme since 2007-2008, as illustrated in paragraph 2.6 of the Audit Report, had outpaced the increase of school fees for some Scheme KGs, parents of 68 Scheme KGs' students were not required to pay any school fee in 2012-2013, as compared with only four in 2007-2008;
- to ensure that a reasonable choice of eligible and affordable KGs for needy families was available under the Voucher Scheme, the

Pre-primary Education Voucher Scheme

Government had, starting from the 2009-2010 school year, reinstated an annual adjustment mechanism for the fee remission ceilings under the Kindergarten and Child Care Centre Fee Remission Scheme ("KCFRS") on the basis of the weighted average fees of NPM HD and whole-day ("WD") KGs under the Voucher Scheme;

- to further tie in with the implementation of the Voucher Scheme, the KCFRS had, with effect from the 2011-2012 school year, been modified to provide enhanced assistance in KG education to needy families, which included:
 - (a) revising the calculation of fee remission under the KCFRS to provide additional financial support to needy families on top of the voucher value (i.e. the amount of voucher subsidy);
 - (b) removing the social needs assessment for eligibility for WD rate of fee remission; and
 - (c) adjusting annually the meal allowance ceiling for needy KG children attending WD Scheme KGs in accordance with the Consumer Price Index (A);
- starting from the 2012-2013 school year, the school fee ceilings and the amount of voucher subsidy had been adjusted annually in accordance with Composite Consumer Price Index ("CCPI"). To reduce the difficulties of Scheme KGs in handling their administrative and accounting work, starting from the 2012-2013 school year, the voucher subsidy had been disbursed according to the tuition fee payment schedule of KGs; and
- in addition to the above enhancement measures, the EDB planned to provide all Scheme KGs with a one-off grant to improve the teaching and learning environment and facilities through improvement works and procurement of learning resources with a view to enhancing teaching and learning effectiveness of KGs. Subject to the approval of the Finance Committee ("FC") of the Legislative Council ("LegCo"), the grant will be disbursed to all eligible KGs in the 2013-2014 school year.

9. Regarding the miscellaneous fees charged by Scheme KGs, **Deputy Secretary for Education** advised and the **Secretary for Education** elaborated in his reply dated 31 May 2013 to the Committee (in Appendix 12) that:

- to safeguard the interest of parents and students, when considering KGs' applications for revision of school fees, the EDB would only accept those expenditures directly related to teaching and learning, school operation and maintenance of education services. Expenses on regular learning activities for all students, conducted either inside or outside the school premises, including expenses for birthday parties, graduation ceremony, school outing, picnics and visits, would be taken into account in determining the approved fee levels to ensure the reasonableness of the revision;
- although KGs might charge miscellaneous fees for the sale of optional school items and provision of paid services which would not require prior approval from the EDB (as in the case of school fees and lunch charges), the EDB had required Scheme KGs to comply with the following set of principles on trading activities and to report the miscellaneous fees they charged for trading activities in the "statements of profit/loss from trading activities" attached to their audited accounts, so that excessive profits could readily be identified:
 - (a) no purchase of school items or acceptance of paid services should be compulsory, and parents should be informed accordingly;
 - (b) items and paid services should be sold or provided at the minimum feasible price and should not be above the market price;
 - (c) any offers of donation or advantage from trading operator/suppliers should only be accepted in accordance with EDB circulars;
 - (d) no profit should be generated from the sale of textbooks;
 - (e) profit from the sale of school items (other than textbooks) and the provision of services should be limited to 15% of the cost price;
and
 - (f) proper books of accounts should be kept which must reflect all its trading activities;
- to avoid Scheme KGs from grouping the whole or part of their miscellaneous fee income under "other operating income" which might have bypassed the requirement for compliance with specified profit limits and the EDB's examination for justification and reasonableness,

the EDB would revise the guidelines on how incomes from trading operations should be reflected. Specifically, the EDB would:

- (a) define clearly what constituted "trading activities";
 - (b) give examples of items that should be reported as "other operating income" in the audited accounts, so that Scheme KGs would properly classify their incomes from various miscellaneous fees and report them properly in their audited accounts as required;
 - (c) remind Scheme KGs to observe the list of components of school fees as set out in Appendix C to the Audit Report, and not to collect other charges on these components; and
 - (d) request Scheme KGs and their auditors to provide explanatory notes and details of the trading income in the audited accounts where necessary;
- Scheme KGs would be reminded to follow the revised guidelines in the annual circular memorandum on submission of audited accounts, which would be issued in November each year; and
 - briefing sessions on financial management and fee revision of KGs would be conducted in November 2013 and February 2014 respectively, during which the revised guidelines on trading income would also be introduced.

Financial situation of Scheme KGs

10. The Committee pointed out that the reason why some Scheme KGs charged miscellaneous fees as high as 24% to 44% of their school fee income was due to the fact that these Scheme KGs incurred net deficits in their operation. The Committee noted that the school fees of Scheme KGs could not be raised without the EDB's approval and could not exceed the ceilings set by the EDB. According to paragraph 5.12 of the Audit Report, in 2010-2011, some 280 (37%) incurred net deficits, and 20 of them incurred net deficits of \$1 million to \$2 million each. Question was raised as to whether Scheme KGs, which must be NPM, could survive in a wholly private market where the rentals of school premises were high.

11. **Secretary for Education** responded that:

- although some 280 (37%) Scheme KGs had incurred net deficits in 2010-2011, 440 (59%) Scheme KGs had earned net surplus and some 30 (4%) Scheme KGs had a breakeven result during the same period;
- some sponsoring bodies of Scheme KGs had indicated that they would continue to operate the KGs despite at a loss, as it was their mission to provide educational services to the local community;
- many Scheme KGs had been very creative in coming up with ways to reduce their operating costs by, say, renting space in public housing estates from the Housing Authority or in shopping malls from private developers who charged lower rent in order to attract KG operators to operate a KG in the premises;
- a KG rent reimbursement scheme was operated by the EDB to provide financial assistance to NPM KGs, including Scheme KGs, in the form of reimbursement of rentals, rates and government rents. Each year, the Government spent some \$200 million on such reimbursements, with some 85% disbursed on rentals. In 2012-2013, 392 Scheme KGs were granted rental reimbursement; and
- the issue of how KGs should be financed would be one of the issues which the Committee on Free KG Education would study and make specific proposals on how to practicably implement free KG education. The Committee on Free KG Education and its five sub-committees would also study the recommendations in the Audit Report for making proposals on improvement in the context of free KG education. The terms of reference and membership of the Committee on Free KG Education and its five sub-committees are in the Appendix to his reply dated 31 May 2013 to the Committee (in Appendix 12).

12. **Deputy Secretary for Education** supplemented that the fact that some Scheme KGs recorded net deficits in a particular school year did not necessarily mean that all of them were operating at a loss. Some of these Scheme KGs could in fact have accumulated surplus. The reason why some Scheme KGs which had accumulated surplus still incurred net deficits in a particular school year was because they were advised by the EDB, when considering their applications for revision of school fees, to lower or withdraw their proposed fee increase and to plough back the surplus to finance the KG operation.

Pre-primary Education Voucher Scheme

13. At the request of the Committee, **Secretary for Education** provided, after the hearing, the following information to substantiate that the financial situation of Scheme KGs has improved over the years:

	School year/Financial year			
	2007-2008	2008-2009	2009-2010	2010-2011
Number of Scheme KGs with net deficits for the school year and as a % of the total Scheme KGs	387 (47%)	430 (53%)	357 (45%)	279 (37%)
Government expenditure on the Voucher Scheme in respective financial year (\$ million)	914.1	1,523.9	1,628.9	1,854.3

14. On the question of how the EDB would do to help those Scheme KGs which had incurred net deficits, **Deputy Secretary for Education** advised that:

- of the 279 Scheme KGs with net deficits in the 2010-2011 school year, only 17 KGs (6%) charged school fees at the school fee ceiling for a HD and/or WD place in the same school year. For the other 262 KGs, they were charging school fees below the school fee ceilings. And amongst many of these 262 KGs, the school fees they charged were also below the HD and WD weighted average school fees in Scheme KGs. The aforesaid 262 Scheme KGs might consider applying for an increase in school fees if they had financial difficulties in operating the KGs, after collection of the fee subsidy under the Voucher Scheme (at \$16,800 in 2012-2013) and receipt of other incomes;
- in view of the above, no correlation could be drawn between the school fee ceilings and the Scheme KGs with net deficits in the 2010-2011 school year; and
- with effect from the 2012-2013 school year, the school fee ceilings under the Voucher Scheme would be adjusted annually according to the

year-on-year rate of change in the CCPI, hence allowing all KGs, including those at the school fee ceilings, to revise the fee levels correspondingly.

15. According to paragraph 5.11 of the Audit Report, although the Voucher Scheme had provided for revising the school fee ceilings with CCPI since 2012-2013, 24% of the Scheme KGs were charging school fees for a HD place close to the school fee ceiling. The scope for their fee revisions to cope with factors other than inflation was limited. The Committee requested the Secretary for Education to provide information on the numbers and percentages of Scheme KGs providing both HD and WD classes, only HD classes and only WD classes respectively, and the numbers of these Scheme KGs which incurred deficits, surplus and had a breakeven result respectively in 2010-2011 on the sole basis of the school fees charged.

16. **Secretary for Education** has provided the following responses after the hearing:

- it would not fairly present the operating situation of Scheme KGs if one was to assess the operating results of Scheme KGs on the sole basis of the school fees charged without taking into account the fact that:
 - (a) the operating expenditures as shown in the audited accounts of Scheme KGs are the actual expenditures of the KGs as certified by their auditors. However, the expenditures of some Scheme KGs may not be fully recognized as allowable expenditures by the EDB when assessing the fee increase application of these KGs. For example, rental value that is higher than the rental assessment of the Rating and Valuation Department ("RVD"), donations, and management fees that are not justified will be excluded in fee revision assessment; and
 - (b) the operations of Scheme KGs are financed by various types of income. Apart from school fees and miscellaneous fees collected from students, Scheme KGs will receive such income as interest income, donations, subsidies from their sponsoring bodies, etc. These incomes are used to finance the operation of the Scheme KGs and help reduce the pressure for fee increase; and
- Scheme KGs are privately run. Whilst their annual audited accounts are prepared in accordance with the generally accepted accounting

Pre-primary Education Voucher Scheme

principles, the presentation of the audited accounts of Scheme KGs may vary. Some Scheme KGs do not provide full details of their incomes and expenditures in their 2010-2011 audited accounts. And thus, the EDB do not have the required information to comprehensively analyze the operating situation of Scheme KGs taking into account the factors set out above.

17. Notwithstanding the foregoing, **Secretary for Education** has provided below the distribution of Scheme KGs which had incurred a deficit, had earned a surplus or had a breakeven result on an overall basis for the 2010-2011 school year:

2010-2011 school year	Scheme KGs							
	Providing WD classes only		Providing HD classes only		Providing both HD and WD classes		Total	
	No.	%	No.	%	No.	%	No.	%
Net Surplus	139	63%	87	60%	214	55%	440	59%
Breakeven (Net surplus below 1% of total school income)	14	6%	7	5%	13	3%	34	4%
Net Deficit	67	31%	50	35%	162	42%	279	37%
Total	220 (29%)	100%	144 (19%)	100%	389 (52%)	100%	753 (100%)	100%

Setting of voucher value

18. The Committee enquired about the reason(s) for changing the basis to adjust the annual provision of fee subsidy under the Voucher Scheme with reference from inflation, teachers' salary increment and qualification development from 2007-2008 to 2011-2012 to adjust the same (i.e. voucher value) annually according to the year-on-year rate of change in the CCPI from 2012-2013.

19. **Mrs Cherry TSE, Permanent Secretary for Education**, explained and the **Secretary for Education** elaborated in his reply dated 31 May 2013 to the Committee (in Appendix 12) that:

Pre-primary Education Voucher Scheme

- it was not the policy intent of the Voucher Scheme to provide free education at the time when the Voucher Scheme was introduced and hence the voucher was not meant to cover the full tuition fee charged by KGs in the 2007-2008 school year. Families with financial difficulties might apply for fee remission through the means-tested KCFRS for additional financial support. To alleviate the financial burden on parents, the amount of fee subsidy under the Voucher Scheme was set with reference to the weighted average school fee. In the 2007-2008 school year, the weighted average school fee for HD classes was \$17,200 pspa, of which the amount of fee subsidy under the Voucher Scheme was around 60%;
- substantial upgrading of professional qualification of principals and teachers of Scheme KG were expected to be completed by the 2011-2012 school year. As such, the degree of progressive increase of the subsidy in the four-year leading period had taken into consideration of teachers' salary increase as a result of their qualification upgrading;
- the Working Group on Review of the Voucher Scheme ("the Working Group") in 2010 considered that non means-tested fee subsidy, complemented by the fee remission scheme, had already taken into consideration wide eligibility for receiving subsidy for KG education on the one hand and focused support for low-income families on the other; and
- to achieve the intended target of providing support to parents to reduce their financial pressure, the voucher value should be subject to an annual review with reference to inflation with effect from the 2012-2013 school year. Along the Working Group's recommendation, the EDB proposed to adjust the voucher value annually with reference to the CCPI starting from the 2012-2013 school year, which was subsequently endorsed by the FC of LegCo.

Setting of school fee ceilings

20. The Committee was of the view that apart from the CCPI, due regard should be given to the actual operating costs of KGs, such as teachers' salaries and rentals, in the annual revision of the school fee ceilings. The Committee noted that in the first five years of the implementation of the Voucher Scheme, the school fee ceilings were set with reference to the subsidy levels under the Scheme. According to paragraph 2.7 of the Audit Report, the HD school fee ceiling was set at \$24,000 pspa for

2007-2008 to 2011-2012, taking into account the progressive increase of the subsidy to \$16,000 in 2011-2012 and the provision of a 50% margin (\$8,000) to cater for the difference in fee levels amongst KGs.

21. **Permanent Secretary for Education** responded that:

- adjusting the school fee ceilings with reference to the average school fees charged by KGs would be tantamount to chasing the market, which would not be a prudent use of public money;
- annual revision of the school fee ceilings with reference to the CCPI with effect from 2012-2013 was endorsed by the FC of LegCo; and
- should the KG sector and other stakeholders have any comments on the existing mechanism on the setting of school fee ceilings, the EDB would review the mechanism under the established procedure. If changes to the mechanism were required, endorsement from the FC of LegCo would be sought.

Decline in the Voucher Scheme participation

22. The Committee considered that the fact that the annual revision of school fee ceilings was made with reference to the CCPI only might be why the Voucher Scheme participation rate was on the decline. According to paragraphs 2.30 and 7.5 of the Audit Report, when the Voucher Scheme was introduced in 2007-2008, the EDB estimated that 80% of the KGs would join the Voucher Scheme, covering 90% of the eligible children. As at September 2012, the Scheme participation rate was 77% in terms of KGs and 79% in terms of students. In October 2012, 14 Scheme KGs informed the EDB that they would opt out of the Voucher Scheme with effect from 2013-2014. According to paragraph 5.13 of the Audit Report, amongst the 14 KGs which had opted out of the Voucher Scheme in 2012-2013, five of them had immediately revised upwards their school fees for a HD place beyond the ceiling of \$25,200 pspa. Two of them had revised their school fees pspa from \$24,000 (fee ceiling for Scheme KGs in 2011-2012) to \$38,000 in 2012-2013.

23. **Secretary for Education** stressed that decline in the Voucher Scheme participation was not high. In 2007-2008, the number of local NPM KGs was 780 and the number of these KGs joining the Voucher Scheme was 768. The participation rate was 98%. In 2012-2013, the number of local NPM KGs was 757

Pre-primary Education Voucher Scheme

and the number of these KGs joined the Voucher Scheme was 735. The participation rate was 97%.

24. At the request of the Committee, **Secretary for Education** provided in his reply dated 31 May 2013 (in Appendix 12) to the Committee the respective numbers and percentages of local NPM KGs joining and withdrawn from the Voucher Scheme since its introduction in 2007-2008 as tabulated below:

School Year	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Total No. of local NPM KGs	780	788	774	769	763	757
No. and % of local NPM KGs joining the Voucher Scheme	768 (98%)	776 (98%)	762 (98%)	757 (98%)	751 (98%)	735 (97%)
No. and % of local NPM KGs withdrawn from the Voucher Scheme	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	14 (1.9%)
No. of students under the Voucher Scheme	119 700	117 900	119 100	122 900	129 100	129 400*

* Provisional figure as at mid-September 2012

C. Professional development of KG principals and teachers

Progress of professional upgrading

25. The Committee noted that one key objective of the Voucher Scheme was to raise the quality of KG education, by subsidizing the professional development of serving KG principals and teachers through the provision of a training subsidy. This training subsidy was included in the voucher value pspa for the years from 2007-2008 to 2010-2011, which would be spent on the reimbursement of course fees, appointment of supply teachers to relieve the workload of teachers on approved training course, and provision of school-based professional development. Training subsidy was also extended to non-Scheme KGs, so that their teaching staff could also claim course fee reimbursement. According to Table 2 in paragraph 2.12 of the Audit Report, some \$1,000 million had been spent over the five years of 2007-2008 to 2011-2012 on the provision of such teacher development subsidy.

26. The Committee further noted that in January 2007, the EDB announced the following policy targets for the professional upgrading of KG principals and teachers for all KGs, including Scheme KGs and non-Scheme KGs:

- ***Principals.*** From 2009-2010 onwards, all newly appointed principals must have a degree in Early Childhood Education ("ECE") and had completed a Certification Course for KG Principals. The EDB encouraged all serving principals to obtain a degree in ECE and expected them to complete the Certification Course by the end of 2011-2012; and
- ***Teachers.*** From 2007-2008 onwards, all newly appointed teachers must possess the Certificate in ECE ("C(ECE)") qualification or its equivalent. All serving teachers were expected to obtain the C(ECE) qualification by the end of 2011-2012.

As a condition of the Voucher Scheme, with effect from 2012-2013, each Scheme KG had to maintain a sufficient number of teachers possessing the C(ECE) qualification based on the "C(ECE) teacher to students" ratio of 1:15.

27. The Committee was concerned that the above policy targets had not been entirely met by the end of 2011-2012. According to paragraph 3.8 of the Audit Report, as at September 2012 (start of 2012-2013), 13 of the 698 Scheme KG principals (2%) had yet to complete the Certification Course and 1 203 of the 8 517 Scheme KG teachers (14%) had not acquired the C(ECE) or equivalent qualification.

28. **Deputy Secretary for Education** responded and the **Secretary for Education** elaborated in his reply dated 31 May 2013 (in Appendix 12) that:

- six of the 13 Scheme KG principals who had yet to complete the Certification Course as at September 2012 had already been enrolled or planned to enrol in the Certification Course. As these 13 principals were appointed prior to 2009-2010, the fact that they continued to serve as principals was not in breach of the condition of the Voucher Scheme. The EDB had issued advisory letters to the remaining seven principals to encourage them to acquire the qualification as soon as possible;
- for the 1 203 Scheme KG teachers who had yet to acquire the C(ECE) or equivalent qualification as at September 2012, the EDB had no information on the number who had enrolled in the C(ECE) course or equivalent. The EDB understood from the Scheme KGs concerned that

Pre-primary Education Voucher Scheme

the main reasons why some teachers did not pursue professional upgrading were due to imminent retirement and other family obligations;

- the EDB would ensure that there were adequate teachers possessing/pursuing C(ECE) in Scheme KGs based on the 1:15 teacher to student ratio. As a matter of fact, the EDB would not give approval for KGs to stay in or join the Voucher Scheme if they had not met the aforesaid requirement;
- in 2012-2013, of the 8 517 teachers in Scheme KGs, 7 314 (86%) had obtained the C(ECE). From the information provided by tertiary institutes offering ECE courses, 1 384 teachers in local KGs were pursuing C(ECE) in 2012-2013. The EDB, however, did not have further information on how many of these teachers were serving in Scheme KGs; and
- there was no cause for concern that there would be a shortage of manpower in the KG sector. Based on the information provided by tertiary institutes offering ECE courses, the respective numbers of graduates who were expected to obtain a degree in ECE or C(ECE) in Hong Kong in the coming two years were as follows:

Graduates from in-service ECE courses

School year	2012-2013	2013-2014
Bachelor of Education in ECE ("BEd(ECE)") or equivalent*	831	819
C(ECE)	577	476

Graduates from pre-service ECE courses

School year	2012-2013	2013-2014
BEd(ECE) or equivalent*	144	133
C(ECE)	727	1 184

*Including Postgraduate Diploma in ECE

29. The Committee noted that although non-Scheme KGs were not required to meet the requirement to employ sufficient number of teachers with C(ECE) based on a teacher to student ratio of 1:15 as Scheme KGs, the fact that as at September 2012, 59 (57%) of the 103 serving principals had not completed the Certification Course and 461 (27%) of the 1 701 serving teachers had not acquired the C(ECE) or equivalent qualification, as pointed out in paragraph 3.8 of the Audit Report, warranted attention of the EDB.

30. The Committee enquired about the measures that would be adopted/ways that might be explored by the EDB to provide support for the professional upgrading of KG principals and teachers, having regard to the fact that the training subsidy under the Voucher Scheme had lapsed by the end of 2011-2012.

31. **Deputy Secretary for Education** responded and the **Secretary for Education** affirmed in his reply dated 31 May 2013 (in Appendix 12) that the EDB would provide course fee subsidy for Scheme teachers enrolling in C(ECE) course and principals studying the Certification Course who were pursuing these courses in 2012-2013 and would complete the courses by the end of 2013-2014. Details of such provision would be announced to the KGs before the end of the current school year.

Turnover rates of KG teachers

32. Notwithstanding the fact that the wastage rate of teachers for the local KG sector had dropped from 11.5% in 2006-2007 to 7.1% in 2011-2012, the Committee noted that Audit found that in 2010-2011, the average teachers' turnover rate (by individual KGs) for Scheme KGs was 22%, with turnover rates of over 60% in 26 Scheme KGs. The Committee was concerned that the high teacher turnover rate might affect the quality and stability of Scheme KGs. The Committee queried whether the high turnover rate was due to the fact that the salaries of Scheme KG teachers did not commensurate with their workload.

33. **Permanent Secretary for Education** responded and the **Secretary for Education** elaborated in his reply dated 31 May 2013 (in Appendix 12) that:

- the reasons why regular KG teachers did not serve as regular KG teachers in the same KG might be due to teacher transfer (from one KG to another KG); change of work nature in the same KG (e.g. transferred from being a regular KG teacher to a supply teacher/child-care staff,

lapse of teaching posts in the original KG, or the teacher leaving the service). All these were due either to the decision of individual teachers or to school-based arrangements;

- for individual schools as quoted in paragraph 3.19(d) of the Audit Report with relatively high staff turnover, i.e. over 60%, there might be many contributing factors relating to human resources management. Hitherto, the situation of the 26 Scheme KGs concerned had improved;
- it should be noted that the average turnover rate as quoted in the Audit Report for non-Scheme KGs was higher than that for Scheme KGs, i.e. 22% for Scheme KGs versus 27% for non Scheme KGs, which implied that the "high" turnover had no direct relation with the Voucher Scheme, or any challenges that were unique to Scheme KGs;
- notwithstanding the above, staff management was under the domain of management of organization that the EDB would look into when conducting Quality Review ("QR") to validate Scheme KGs' self-evaluation results. Should outflow of regular teachers in individual KGs warrant attention, the EDB would look into the matter and advise the KGs on appropriate enhancement measures with a view to ensuring the delivery of the quality education; and
- it was not the normal public policy to monitor/intervene into the staff turnover rate of individual entities in the aided or the private sector. The focus should be at the aggregate sector level. In this connection, the EDB would continue to monitor the demand and supply of KG teachers at the territory level to ensure an adequate provision of qualified KG teachers in the sector.

34. At the request of the Committee, the **Secretary for Education** provided after the hearing the following information as set out in items (h) and (i) of his reply dated 31 May 2013 to the Committee (in Appendix 12):

- longest, shortest and median working hours of teachers working in Scheme and non-Scheme KGs in the past five years; and
- highest, lowest and median monthly salaries of teachers working in Scheme and non-Scheme KGs in the past five years.

D. Quality assurance mechanism

35. The Committee noted that to enhance the quality of KG education, the EDB required all Scheme KGs to be subject to a quality assurance mechanism. Under the mechanism, Scheme KGs conducted self-evaluations and the EDB conducted QRs periodically to validate Scheme KGs' self-evaluation results. Starting from 2012-2013, only Scheme KGs which met the EDB's QR standards were allowed to remain in the Voucher Scheme.

Performance indicators for pre-primary education

36. According to paragraph 4.6 of the Audit Report, the self-evaluations to be conducted by Scheme KGs were based on a set of 32 performance indicators. These performance indicators provided a common platform to evaluate the services. In response to the Committee's enquiries about the rationale for the formulation of the 32 performance indicators for pre-primary education and the guidelines to assist Scheme KGs to conduct the required self-evaluations based on these performance indicators, **Secretary for Education** advised in his reply dated 31 May 2013 to the Committee (in Appendix 12) that:

- the performance indicators, which tied in with the aims of KG education, served as reference for school self-evaluation and QR. The 24 performance indicators under Domains I to III (I-Management & Organisation, II-Learning & Teaching, III-Support to children & School Culture) were collectively known as process indicators, reflecting school's capacity in providing a desirable learning environment conducive to the development of quality education. The remaining eight performance indicators in Domain IV (Children's Development) were the outcome indicators, covering the progress of children in different aspects. The four Domains were inter-related and closely related to the operation of individual kindergartens when assessing its performance;
- schools were recommended to use the 32 performance indicators to conduct a holistic review on their current state of performance flexibly. The performance indicators were interconnected and no single one should be used in isolation in judging the performance of a KG. Such an elaborated set of performance indicators was required particularly at the initial stage of implementing the quality assurance mechanism and developing a self-evaluation practice in KGs. KGs could make reference to the appropriate performance indicators to conduct school self evaluation ("SSE") in a more comprehensive manner;

- the EDB had conducted workshops for all Scheme KGs for enhancing SSE skills including the use of performance indicators. In addition, the School Self-Evaluation Manual, with detailed information about the use of performance indicators, had been uploaded onto the EDB website for schools' reference. The EDB would continue to strengthen support for KGs in the use of the performance indicators to conduct SSE. In this connection, the EDB would conduct training workshops and sharing sessions, as well as provide school-based support for KGs; and
- as a result of the professional upgrading of KG teachers, the ability of KG teachers in conducting assessment on students' progress as well as the planning of curriculum had improved.

Delay in finalizing the consultant's review report on the effectiveness of the QR mechanism

37. According to paragraph 4.14 of the Audit Report, in its 2010 review, the Education Commission recommended the involvement of professionals in the KG sector to fine-tune the review process so that the QR is improvement-oriented. In June 2010, the EDB commissioned a consultancy study to review the effectiveness of the QR mechanism and its impact on pre-primary education. According to the schedule, the consultancy study should have been completed by August 2011. However, up to late March 2013, the review report had not yet been finalized. The Committee enquired about the reason(s) for the delay in finalizing the consultant's review report on the effectiveness of the QR mechanism.

38. **Deputy Secretary for Education** explained that:

- the delay was due to the fact that there was room for improvement in the writing of the review report on the effectiveness of the QR mechanism prepared by the consultants. The time was further delayed due to the fact that the EDB had to communicate with the overseas consultant and his team and sometimes the EDB had to invite the consultant to come to Hong Kong to hold discussions;
- the EDB would expedite the process in finalizing the review report; and
- it should be noted that although the review report had yet to be published, in the light of the recommendations of the consultancy study which were shared with the EDB, the EDB had already introduced

improvement measures in the second five-year cycle of QRs starting from 2012-2013.

E. Regulatory measures

39. The Committee noted that the EDB had instituted a package of measures to regulate the financial operation of Scheme KGs as follows:

- approval of school fees and lunch charges to ensure that the fees and charges of all Scheme KGs were justifiable and reasonable;
- annual review of audited accounts to ensure that all Scheme KGs had used the funds from redeeming the vouchers in accordance with the rules promulgated by the EDB;
- on-site inspections of selected Scheme KGs to ensure that they had adequate accounting and internal controls; and
- surprise headcount of selected Scheme KGs to verify the accuracy of their reported number of Scheme students.

40. The Committee's concerns about the EDB's setting of school fee ceilings and regulation of Scheme KGs' income from trading activities and the EDB's responses are set out in paragraphs 20 to 21 and paragraphs 6 to 9 above respectively.

Some Scheme KGs are receiving rental reimbursement from the EDB

41. Rentals for school premises are very often one of the Scheme KGs' major expenditure items. The EDB has operated, long before the Voucher Scheme was introduced, a reimbursement scheme to provide financial assistance to NPM KGs in the form of reimbursement of rentals, rates and government rents. Each year, the Government spent some \$200 million on such reimbursements, with some 85% disbursed on rentals. Scheme KGs may operate on school premises which are owned by their sponsoring bodies, or rented from the Government, the Housing Authority, the Hong Kong Housing Society, non-governmental organisations or private owners. All the rental reimbursements provided to KGs are based on either the assessments of the RVD, or the actual rentals charged by the Housing Authority or the Hong Kong Housing Society.

42. The Committee enquired why the KG rental reimbursement policy was not consistently applied to all Scheme KGs, and whether consideration would be given to expanding the application of the policy to more Scheme KGs.

43. **Deputy Secretary for Education** responded that:

- rental reimbursement scheme, which had been in place since 1982 was open to all NPM KGs. When the Voucher Scheme was introduced, there was no policy intention to alter fundamentally the rental reimbursement scheme. Applications would be considered on its own merit based on the following set of criteria:
 - (a) the operating standard of the KG;
 - (b) the curriculum standard of the KG;
 - (c) compliance with the Education Ordinance (Cap. 279) and the Education Regulations (Cap. 279 sub. leg. A), various fire services/building requirements and administrative directives; and
 - (d) other factors (including the proven demand for kindergarten places in the district, enrolment rate, school fee level and rental cost, etc.); and
- the EDB would review the KG rental reimbursement scheme alongside the study of the free KG education.

44. The Committee noted that although all new applications for rental reimbursement would be considered only when there was shortage of KG places in the district of relevant KGs, once reimbursement was granted, shortage of KG places was no longer a factor affecting the KGs' eligibility for continuing the reimbursement in subsequent years. The Committee enquired why rental reimbursement was still provided to those KGs whereby the problem of shortage of KG places in the districts of the relevant KGs no longer existed.

45. **Deputy Secretary for Education** explained that:

- for KGs which were receiving rental reimbursement, the EDB would review their eligibility every two years based on the same set of criteria

mentioned in paragraph 43 above. However, the EDB would not discontinue with the provision of rental reimbursement to those KGs solely on the ground that there was no shortage of KG places in the districts of the relevant KGs; and

- whilst the EDB would continue to provide rental reimbursement to the eligible KGs even when there was no longer a shortage of KG places in the district to maintain stability in the operation of the KGs and to avoid creating excessive pressure for fee increase that would have bearing on the parents, the EDB would adjust the rent to be reimbursed to individual KGs having regard to their enrolment rates. A KG having an enrolment rate of 50% or above would be granted full rent reimbursement, whilst a KG having an enrolment rate below 50% would receive only 50% rental reimbursement.

Significant rental payments by Scheme KGs

46. The Committee noted from paragraph 5.38 of the Audit Report that as Scheme KGs were not subvented organizations, they should be allowed to preserve flexibility and adaptability. However, according to the terms and conditions of the Voucher Scheme, Scheme KGs were not allowed to transfer surplus, in whatever form, to any of their sponsoring bodies or other related organizations. The Committee enquired whether Scheme KGs were still allowed to rent premises from their sponsoring bodies or other related organizations. Concern was raised that excessive rentals paid by Scheme KGs to their sponsoring bodies or related organizations would increase the cost of operation of the KGs and hence reduce the reserve level.

47. **Deputy Secretary for Education** responded that:

- the EDB would not disallow Scheme KGs to rent premises from their sponsoring bodies or other related organizations. However, Scheme KGs were reminded to make proper disclosure of related party transactions in both their applications for school fee revision and their audited accounts; and
- if the amount of rentals submitted by the Scheme KGs when applying for school fee revision appeared to be excessively high, the EDB would seek assessment of the rentals from the RVD to ensure the reasonableness of the rentals when determining the approved fee levels.

Timely completion of annual reviews of audited accounts

48. According to paragraph 5.40 of the Audit Report, Scheme KGs are required to submit their audited accounts to the EDB by February of the year following the relevant school year. Audit noted that in the four years of 2007-2008 to 2010-2011, about half of the Scheme KGs submitted their audited accounts late. For the 2009-2010 audited accounts, 380 Scheme KGs submitted their accounts after the deadline of February 2011. The Committee enquired about the reason(s) for the failure of the EDB to review Scheme KG's audited accounts in a timely manner and the measures that had been/would be put in place to address the problem.

49. **Ms Rhoda CHAN, Principal Assistant Secretary for Education (Finance)**, responded and the **Secretary for Education** elaborated in his reply dated 31 May 2013 (in Appendix 12) that:

- owing to the late submission of the audited accounts by the Scheme KGs, coupled with the need to conduct the more time-critical annual school fee revision exercise which had to be completed in August each year, the EDB had to review the audited accounts by stages. An interim review of the audited accounts was usually conducted between March and August each year. Should there be any non-compliance practices or qualified audit opinions made by the KG auditors during the interim review, the EDB would follow up with the concerned KGs immediately. The whole review exercise was usually completed in April of the following year;
- nonetheless, the EDB had made vigorous efforts to speed up the review of the 2010-2011 audited accounts of Scheme KGs, which was completed by November 2012, five months earlier than the previous exercises. The timely submission of audited accounts by Scheme KGs would enable the EDB to better schedule the review work. With the close follow-up by the EDB, the proportion of Scheme KGs not submitting their audited accounts by the deadline had declined significantly from 64% for the 2007-2008 school year to 34% for the 2011-2012 school year, and those that were exceptionally late in submitting their audited accounts three months after the deadline had also declined significantly from 20% for the 2007-2008 school year to 2% for the 2011-2012 school year. To step up the monitoring, in addition to the issue of annual circular to the Scheme KGs calling for submission of audited accounts, the EDB would issue reminder to the

KGs urging the prompt submission of their audited accounts one month before the deadline starting from next year; and

- to expedite the completion of the annual review of audited accounts, the EDB would further synchronize the processes involved in the examination of Scheme KG's fee revision applications and the review of their annual audited accounts.

F. Disclosure and transparency

50. To join the Voucher Scheme, a KG is required to meet stipulated disclosure and transparency requirements. One of the requirements is that the KGs should disclose to the public their key operational details and give consent to publish such information in the KG Profile issued by the EDB from time to time to the public. As mentioned in paragraph 6 above, miscellaneous fees charged by some Scheme KGs could be quite substantial. According to paragraph 6.4 of the Audit Report, the EDB only required Scheme KGs to report in the KG Profile school fees, lunch charges (if applicable) and price information for four major school items. Audit's analysis of the price information provided by 121 Scheme KGs surveyed revealed that in 2011-2012, 60% of the total amounts of the miscellaneous fees they charged were not disclosed in the KG Profile.

51. The Committee noted that the Secretary for Education would:

- enhance the transparency and disclosure of the operation of Scheme KGs by requiring them to publish additional items of miscellaneous fees in the KG Profile; and
- encourage Scheme KGs to upload their School Reports and/or School Plans onto their school websites, and provide them with additional support and necessary assistance.

G. Way forward

52. **Secretary for Education** advised that the EDB would consider the Audit recommendations and take follow-up actions as appropriate according to the urgency of the matters, such as providing continued support for the professional upgrading of KG teachers, devising salaries management of KG teachers and helping KGs to cope with high rentals. In his reply to the Committee dated 31 May 2013 (in

Appendix 12), **Secretary for Education** further advised that the EDB had referred the issues raised in the Audit Report for consideration by the Committee on Free KG Education. The Committee would maintain communication with the KG sector to listen to their views, and explore short and medium term measures which help KGs meet the challenges. The Government would consider providing support accordingly.

H. Conclusions and recommendations

53. The Committee:

Overall comments

- notes that:
 - (a) providing practicable 15-year free education and better quality kindergarten ("KG") education is one of the priorities of the current-term Government;
 - (b) the Committee on Free KG Education was set up by the Government in April 2013 to explore the feasibility of implementing free KG education and make recommendations; and
 - (c) in the meantime, the Education Bureau ("EDB") will continue to implement the Pre-primary Education Voucher Scheme ("Voucher Scheme");
- expresses serious dissatisfaction and disappointment that although the Government had spent some \$8.5 billion on the Voucher Scheme over the five school years of 2007-2008 to 2011-2012, the Voucher Scheme has failed to fully achieve its objectives to (i) alleviate parents' financial pressure and (ii) raise the quality of KG education in that:
 - (a) although the value of the voucher has helped parents to defray a large part of the tuition fee of KG education, i.e. the average tuition fee for half-day classes paid by parents in 2012-2013 is \$3,500 per student per annum ("pspa") as opposed to \$15,169 prior to the introduction of the Voucher Scheme in 2007-2008, some KGs participating in the Voucher Scheme ("Scheme KGs") had charged miscellaneous fees which could be as high as 24% to 44% of the school fees due to the laxity of the EDB in monitoring the

miscellaneous fee income reported by Scheme KGs in their audited accounts; and

- (b) although the teacher development subsidy under the Voucher Scheme, amounting to some \$1 billion, had lapsed by the end of 2011-2012, 13 principals and 1 203 teachers serving in Scheme KGs had, as at September 2012 (start of 2012-2013), not yet completed their professional upgrading;
- expresses serious dissatisfaction and disappointment about the steady drop in the number of Scheme KGs from 843 KGs in 2007-2008 to 735 KGs in 2012-2013, which could be attributed to the fact that the increase in operating costs had outpaced the increase of the school fees, the ceilings of which are subject to annual review with reference only to the Composite Consumer Price Index ("CCPI") since 2012-2013;
- expresses serious concern that the percentage of KG students receiving fee subsidy under the Voucher Scheme had declined from 86% in 2007-2008 to 79% in 2012-2013;
- considers that if the school fee ceilings could not be adjusted upwards to take into account rentals and the need to set salaries at a level to attract and retain quality staff, in particular KG teachers, or if the value of the voucher could not be adjusted upwards to take into account the same, some Scheme KGs would be forced to adopt one or more of the following options to the detriment of the Voucher Scheme:
 - (a) leave the Voucher Scheme;
 - (b) suppress staff salaries;
 - (c) charge higher and/or more types of miscellaneous fees; or
 - (d) close down;
- urges the EDB to devise expeditiously a suitable mechanism for regular review of the school fee ceilings to take into account factors other than changes in the CCPI to build in flexibility and to enhance the sector responsiveness to changes in circumstances;
- expresses serious concern that the high turnover rate of regular teachers in Scheme KGs, i.e. 22% in 2010-2011, may affect the quality and stability of Scheme KGs;

Pre-primary Education Voucher Scheme

- urges the EDB to keep in view the turnover rate of Scheme KG teachers, ascertain if the high turnover in 2010-2011 was due to any systemic issues, and provide advice to Scheme KGs with a high turnover rate to ensure that the turnover has not adversely affected the quality of their education service;
- welcomes the EDB's agreement to explore ways to subsidize Scheme KG principals and teachers who are pursuing the required professional qualifications, although the teacher development subsidy under the Voucher Scheme had lapsed by the end of 2011-2012;
- notes that to ensure that Scheme KGs properly classify their miscellaneous fees in the audited accounts, the EDB has undertaken to (i) set out clearer guidelines on the types of trading activities which are subject to the EDB's administrative directives and explore ways to strengthen the controls over trading profits; and (ii) remind Scheme KGs to properly classify their miscellaneous fees in the audited accounts, and step up the EDB's review of the miscellaneous fees reported in the audited accounts;
- expresses great dissatisfaction and finds it unacceptable that although some Scheme KGs have received rental reimbursement, which is another form of subsidy provided to the KGs outside the ambit of the Voucher Scheme, they are charging similar level of school fees as other Scheme KGs in the same districts that do not receive rental reimbursement. This does not provide an equal and fair treatment among the KGs and is not conducive to ensuring a level playing field for the KG sector;
- expresses great dissatisfaction and finds it unacceptable that once an application for rental reimbursement has been approved, shortage of KG places is no longer a factor affecting the KG's eligibility for continuing the reimbursement in subsequent years;
- expresses great dissatisfaction and finds it unacceptable that some Scheme KGs have made excessive rental payments to their sponsoring bodies or related organizations, which will increase the cost of operation of the KGs and reduce their reserves, but such related party transactions were allowed by the EDB and were sometimes not disclosed in their audited accounts;
- urges the EDB to review the KG rental reimbursement practices to provide a level playing field for Scheme KGs and ensure the proper use

of some \$200 million spent by the Government each year on reimbursements to KGs of rentals, rates and government rents;

- expresses serious dissatisfaction and disappointment that the heavy administrative workload imposed on Scheme KG principals and teachers by the quality assurance mechanism of the Voucher Scheme, as reported by the Education Commission in its 2010 review, would undermine the autonomy of Scheme KGs in their governance;
- recognizes that the diversity and vibrancy of Hong Kong's pre-primary education system are the strengths that should be maintained and built on, and urges the EDB not to overly interfere in the governance and operation of non-Scheme KGs;
- urges the EDB to review the quality assurance mechanism of the Voucher Scheme to safeguard the autonomy of Scheme KGs in their governance on the one hand and continue to ensure the effectiveness of the Voucher Scheme on the other;
- acknowledges that:
 - (a) the Committee on Free KG Education set up by the EDB will explore and recommend short and medium-term measures to address the problems identified in the implementation of the Voucher Scheme for consideration by the EDB, prior to the implementation of free KG education in Hong Kong; and
 - (b) the EDB will actively consider providing support accordingly;

Specific comments

Overview of the Voucher Scheme and its financial features

- notes that:
 - (a) despite the far-reaching implications of KG education on our future generations, with the Voucher Scheme introduced in 2007-2008, Government investment in pre-primary education had only risen from 2.7% of the total recurrent education expenditure in the financial year 2006-2007 to 4.8% in 2011-2012;

Pre-primary Education Voucher Scheme

- (b) the fee subsidy under the Voucher Scheme is provided to parents, not to KGs, and the Scheme aims at enhancing affordability and parental choice while maintaining flexibility for Scheme KGs;
 - (c) apart from easing the financial burden of parents, the Voucher Scheme also aims at raising the quality of KG education through the provision of training subsidy to upgrade the professional qualification of KG principals and teachers and a quality assurance mechanism which ensures that only KGs meeting the prescribed standards may join/stay in the Voucher Scheme; and
 - (d) because the scheduled increase in fee subsidy since 2007-2008 had outpaced the increase of school fees for some Scheme KGs, in 2007-2008, parents of four Scheme KGs were not required to pay school fees as the school fees were less than the fee subsidy of \$10,000 pspa whereas in 2012-2013, parents of 68 Scheme KGs were not required to pay school fees as the school fees were less than the fee subsidy of \$16,800 pspa;
- expresses serious concern and finds it unacceptable that the school fees not covered by the fee subsidy under the Voucher Scheme, coupled with the miscellaneous fees which could be as high as 24% to 44% of the school fees, may represent a heavy financial burden on many parents with children studying in Scheme KGs;

Professional development of kindergarten principals and teachers

- expresses serious concern and finds it unacceptable that:
 - (a) with the introduction of the Voucher Scheme, KG teachers were no longer paid according to a normative salary scale, as previously required under the Kindergarten and Child Care Centre Subsidy Scheme (which ceased to apply to KGs with effect from 2008-2009), and Scheme KGs have full discretion in determining their teachers' salaries;
 - (b) although the teacher development subsidy under the Voucher Scheme had lapsed by the end of 2011-2012, as at September 2012 (start of 2012-2013), 13 principals and 1 203 teachers serving in Scheme KGs had not completed their professional upgrading;

- (c) although the overall wastage rate of teachers in the local KG sector had dropped from 11.5% in 2006-2007 (before the Voucher Scheme was introduced) to 7.1% in 2011-2012, the average teachers' turnover rates in 2010-2011 calculated on the basis of individual local KGs were 22% for Scheme KGs and 27% for non-Scheme KGs, with turnover rates of over 60% in 26 Scheme KGs and 13 non-Scheme KGs; and
- (d) high teacher turnover may affect the quality and stability of Scheme KGs;
- notes that the Education Commission recommended in its 2010 review report that an advisory body be set up to take a professional view on various issues relating to the long-term development and quality of KG education, including a reference salary scale for teachers and principals, and their continuous professional development, and the Secretary for Education has said that these will be studied by the Committee on Free KG Education in due course;

Quality assurance mechanism

- expresses serious concern and finds it unacceptable that:
 - (a) the Education Commission reported in its 2010 review report that Scheme KG principals and teachers had concerns that the Voucher Scheme had imposed heavy administrative workload on them, and the EDB's quality reviews had placed much pressure on the Scheme KGs as failure in passing the quality reviews could result in the KGs' disqualification from the Voucher Scheme; and
 - (b) 32 performance indicators were set by the EDB to help Scheme KGs conduct their self-evaluations, but given that many Scheme KGs are very small in size, some of them have found it difficult to conduct self-evaluations using the 32 performance indicators;

Regulatory measures

- expresses serious concern that:

School fees in the majority of Scheme KGs are approaching the fee ceilings set by the EDB

- (a) in 2012-2013, 126 (24%) Scheme KGs are charging school fees for a half-day place at a level approaching the school fee ceiling of

Pre-primary Education Voucher Scheme

\$25,200 pspa set by the EDB, with 26 of the 126 Scheme KGs charging school fees at the fee ceiling, and 12 of these 26 Scheme KGs reported to have incurred operating deficits in their 2010-2011 audited accounts;

- (b) based on the Scheme KGs' 2010-2011 audited accounts, 37% of the Scheme KGs had incurred net deficits;
- (c) the Voucher Scheme has not provided for a mechanism for regular review of the school fee ceilings to take account of factors, other than inflation, which may affect the Scheme KGs' operating costs, such as increases in KG teachers' salaries and increases in rentals for KG premises;

EDB's regulation of Scheme KGs' income from trading activities and their reporting of miscellaneous fee income as "other operating income" in the audited accounts

- (d) the EDB has to approve revisions to school fees and lunch charges, but not miscellaneous fees charged by Scheme KGs. Although the EDB has laid down principles on trading activities for the sale of optional school items and provision of paid services, Scheme KGs have quite often deviated from the principles, and the EDB has identified quite frequent cases of non-compliances in its annual review of Scheme KGs' audited accounts and in its on-site inspections;
- (e) some Scheme KGs had charged quite significant amounts of miscellaneous fees, which could be equivalent to 24% to 44% of their school fee income;
- (f) many Scheme KGs had grouped all or part of their miscellaneous fee income under "other operating income" in their audited accounts. As a result, they had bypassed the requirement for reporting in the "statement of profit/loss from trading activities" submitted with the audited accounts to the EDB and eluded the specified profit limits and the EDB's examination for justification and reasonableness;
- (g) most of the miscellaneous fee items reported by Scheme KGs under "other operating income" noted by the Audit Commission

should either be covered by the school fees or be treated as "income from trading activities";

Some Scheme KGs are receiving rental reimbursement from the EDB, but some are not

- (h) the Government spent each year some \$200 million on reimbursement of rates and government rents to KGs, with some 85% of the amount spent on rentals. In 2012-2013, 392 Scheme KGs are granted rental reimbursement. It is noted with concern that amongst the 392 Scheme KGs, 41 are reimbursed with rental amounts of \$50,000 a month or more. Of the 41 Scheme KGs, nine are paying rentals, involving payment of \$16.2 million a year in total, to their sponsoring bodies as landlords of the KG premises;
- (i) rentals for school premises are very often one of the Scheme KGs' major expenditure items. The KG rent reimbursement scheme operated by the EDB outside the ambit of the Voucher Scheme has provided another form of subsidy to KGs. However, some Scheme KGs are granted rental reimbursement whereas some are not, but they are subject to the same terms and conditions under the Voucher Scheme. Furthermore, some Scheme KGs receiving rental reimbursement are charging similar levels of school fees as others in the same districts that are not receiving rental reimbursement. This is not an equal and fair treatment amongst KGs and is not conducive to ensuring a level playing field for the KG sector;
- (j) new applications for rental reimbursement will only be considered when there is a shortage of KG places in the district of the relevant KGs. However, once a KG has been approved for rental reimbursement, shortage of KG places in the district of the KG concerned is no longer a factor affecting its eligibility for continuing the reimbursement in subsequent years. Consequently, in the same districts, some Scheme KGs are receiving rental reimbursement while some are not;

Significant rental payments and their disclosure by Scheme KGs

- (k) the EDB has adopted a very stringent fee approval mechanism in considering school fee revisions proposed by Scheme KGs and uses the Rating and Valuation Department ("RVD")'s assessed

rentals, instead of the rentals reported by Scheme KGs, as the allowable expenditure in the calculation of the revised school fees. However, the EDB did not take any actions to follow up the excessive rentals reported in the audited accounts, particularly in cases where the rentals were paid to related parties;

- (l) there were cases of significant variances between the KGs' reported rentals and the RVD's assessed rentals, and on some occasions, the excessive rental payments were made to related parties, but were not disclosed in the audited accounts; and

Timely completion of annual reviews of audited accounts

- (m) the EDB had not reviewed Scheme KGs' audited accounts in a timely manner. In each of the three years of 2007-2008 to 2009-2010, the EDB completed its reviews more than 12 months after the submission deadline;
- notes the views given by the Secretary for Education in paragraph 7.13(a) of the Director of Audit's Report ("Audit Report") that it is not the Government's policy intent to over-regulate the privately-run Scheme KGs and the fee subsidy under the Voucher Scheme is provided to parents (and not the KGs). The elaborative regulatory controls embodied in the traditional subvention model for primary and secondary schools do not apply to Scheme KGs;
 - notes that:
 - (a) improvements had been made over the years as the number of Scheme KGs making excessive profits from trading activities in 2010-2011 had been reduced by one-third as compared with that in 2009-2010;
 - (b) the EDB has undertaken to alert Scheme KGs which were paying significantly higher rental payments to look into the matter and the EDB would also keep in view the reserve levels of Scheme KGs; and
 - (c) the EDB has made efforts in expediting its annual review of audited accounts submitted by Scheme KGs and issuing more timely advisory letters to Scheme KGs on non-compliances, and urge the EDB to continue its efforts;

Disclosure and transparency

- expresses great dissatisfaction and finds it unacceptable that:
 - (a) although the Voucher Scheme aims at enhancing the disclosure and transparency of Scheme KGs, the Audit Commission's survey revealed that 60% of the miscellaneous fees charged by Scheme KGs were not disclosed in the KG Profile issued by the EDB from time to time to the public, thus parents may not have the knowledge of the full costs when they enrolled their children in the Scheme KGs; and
 - (b) Scheme KGs seldom uploaded their School Reports and School Plans onto their school websites;

Way forward

- expresses serious dissatisfaction and disappointment that:
 - (a) when the Voucher Scheme was introduced, the EDB estimated that 80% of the KGs would join the Scheme, covering 90% of the eligible children. However, as at September 2012 (start of 2012-2013), the participation rate was 77% in terms of KGs and 79% in terms of students;
 - (b) as shown at Appendix F of the Audit Report, the number of KGs not participating in the Voucher Scheme had increased from 146 in 2007-2008 to 222 in 2012-2013, including 22 non-profit-making local KGs and 104 private-independent local KGs. Furthermore, 14 Scheme KGs would opt out of the Scheme in 2013-2014; and
 - (c) whilst it is the EDB's intent to enhance parents' choice and to keep wide eligibility under the Voucher Scheme, the rate of participation of KGs and students in the Scheme has fallen short of expectation and is on the decrease;
- notes that:
 - (a) the Secretary for Education will consider the audit recommendations in paragraph 7.11 of the Audit Report and take follow-up actions as appropriate; and

- (b) in April 2013, the EDB has set up the Committee on Free KG Education to gauge the views of stakeholders on the current policy of KG education (including the Voucher Scheme), identify issues for possible improvements, consider various options and make recommendations to the EDB on the way forward, taking into consideration the recommendations made in the Audit Report;
- urges the Secretary for Education to take into account the audit recommendations in the Audit Report and take steps, until the Committee on Free KG Education has come up with recommendations on free KG education, to enhance the Voucher Scheme for the interim period, so as to ensure that the Voucher Scheme continues to be effective in meeting the expectations of the stakeholders;
- acknowledges that:
 - (a) the Committee on Free KG Education set up by the EDB will explore and recommend short and medium-term measures to address the problems identified in the implementation of the Voucher Scheme for consideration by the EDB, prior to the implementation of free KG education in Hong Kong; and
 - (b) the EDB will actively consider providing support accordingly; and

Follow-up action

- wishes to be kept informed of the progress made in implementing the various audit recommendations, and the outcome of the review by the Committee on Free KG Education.