

## **ITEM FOR FINANCE COMMITTEE**

### **HEAD 156 – GOVERNMENT SECRETARIAT : EDUCATION BUREAU**

#### **Subhead 000 Operational expenses**

### **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 –

- (a) a one-off increase of the voucher subsidy and fee thresholds for kindergartens under the Pre-primary Education Voucher Scheme; and
- (b) a one-off revision of the fee remission ceilings under the Kindergarten and Child Care Centre Fee Remission Scheme

in the 2014/15 and 2015/16 school years.

### **PROBLEM**

We need to increase the voucher subsidy and fee thresholds for kindergartens (KGs) under the Pre-primary Education Voucher Scheme (PEVS) and revise the fee remission ceilings under the Kindergarten and Child Care Centre Fee Remission Scheme (KCFRS) beyond the revision amount under the existing annual adjustment mechanism, as short-term measures to help the KGs meet their imminent needs and relieve the financial burden of parents on KG education before the new policy of free KG education is formulated.

**/PROPOSAL .....**

## PROPOSAL

2. To provide additional support for KGs on a one-off basis in the 2014/15 and 2015/16 school years to help them meet the increasing operating cost, further alleviate the financial burden of parents on KG education of their children and enhance the financial support for needy families, thereby facilitating their children's access to a wider range of KGs, the Secretary for Education (SED) proposes to –

- (a) increase the voucher subsidy by \$2,500 per year from \$17,510 in the 2013/14 school year to \$20,010 per student per annum (pspa) in the 2014/15 school year and to \$22,510 pspa in the 2015/16 school year, instead of adjusting the voucher subsidy under PEVS according to the movement of the Composite Consumer Price Index (CCPI);
- (b) having regard to the proposed increase of the voucher subsidy in (a) above, adjust the fee thresholds for half-day (HD) and whole-day (WD) KG classes under the PEVS from \$26,260 and \$52,520 respectively in the 2013/14 school year to \$30,020 and \$60,040 respectively in the 2014/15 school year, and \$33,770 and \$67,540 respectively in the 2015/16 school year in accordance with the established formula between the voucher subsidy and fee thresholds; and
- (c) revise the fee remission ceilings under the KCFRS from the respective weighted average fees of HD and WD KGs under the PEVS to the 75<sup>th</sup> percentile of the school fees of the respective KGs.

## JUSTIFICATION

### Operating Difficulties of KGs under PEVS

3. We set up in April 2013 the Committee on Free Kindergarten Education (the Committee) to make recommendations on how to practicably implement free KG education. Over the past year, the Committee has been actively communicating with the KG sector and different stakeholders to gauge their views and conduct in-depth study on various issues relating to KG education. During this period, there have been calls from the KG sector for the Government to introduce, before the new policy of free KG education is implemented, short-term support measures to help the sector meet their operating costs that have been increasing in recent years, especially expenses on salary for teachers and rental costs.

4. The Committee notes that while the KGs may increase their income by adjusting their school fees to cover the expenses, they are generally reluctant to do so, lest this would increase the financial burden of parents. Under the established mechanism approved by the Finance Committee (FC) vide FCR(2011-12)38, the voucher subsidy and fee thresholds for KGs under PEVS have been adjusted according to the movement of CCPI since the 2012/13 school year. In the 2012/13 and 2013/14 school years, the voucher subsidy and fee thresholds for KGs under PEVS have increased by 5.0% and 4.2% respectively based on the CCPI movement in the previous year (i.e. the adjustment for the 2012/13 school year is based on the year-on-year rate of change in the CCPI in 2011, while the adjustment for the 2013/14 school year is based on the year-on-year rate of change in the CCPI in 2012).

5. The operating difficulties of KGs have been acknowledged by the Public Accounts Committee (PAC). In the PAC Report on PEVS released in July 2013, the PAC pointed out that if the voucher subsidy and fee thresholds could not be adjusted upwards to take into account the increase in rental and salaries to attract/retain quality KG teachers, it may induce some KGs under PEVS to leave the scheme, suppress their staff salaries, charge higher miscellaneous fees or in extreme cases, close down. All these would have an adverse impact on the KG education.

### **Proposed One-off Support Measures**

6. The Committee has acknowledged the views expressed by the KG sector. Since its establishment in April 2013, the Sub-committee on Funding Mode under the Committee has been exploring practicable short-term measures to address the demand of the KG sector and the concerns of PAC as mentioned above. The Sub-committee considers that the most imminent issue is to raise the teachers' salary with a view to retaining talents for maintaining a more stable team of KG teachers. Without government subsidy, the KGs would have to obtain more resources by increasing their school fees, which would transfer the respective expenses to parents. Yet, under the fee thresholds set under the PEVS, some KGs are unable to increase the school fees to meet the related expenses. Besides, some representatives of the sector have also expressed concern about the pressure faced particularly by those KGs not receiving rental reimbursement under the Education Bureau (EDB)'s KG rent reimbursement scheme<sup>1</sup> in meeting the rental costs.

/7. ....

---

<sup>1</sup> All non-profit-making KGs which are exempt from tax under the Inland Revenue Ordinance can apply for rent reimbursement under the KG rent reimbursement scheme. The EDB will consider each application on its own merit based on a set of criteria including the operating standard of the KG, its compliance with the Education Ordinance, Education Regulations and administrative directives, the demand of KG places in the district, enrolment of the KG, etc.

7. The Committee submitted a progress report to the EDB in December 2013, recommending short-term measures based on the following principles –

- (a) the measures should be based on the existing mechanism so that they can be implemented practicably and expeditiously;
- (b) the financial implications are affordable to the Government; and
- (c) the short-term support measures should not pre-empt the ultimate recommendations of the Committee.

8. The recommendations put forward by the Committee are as follows –

- (a) additional subsidy should be provided for KGs under PEVS in the 2014/15 and 2015/16 school years. For the amount of subsidy, reference should be made to the teachers' salary and other operating costs of KGs (including rentals);
- (b) the additional subsidy may be provided in the form of increased voucher subsidy or one-off grant. In the case of increasing the voucher subsidy, the rate of increase is proposed to be not less than 10% each year in the 2014/15 and 2015/16 school years; and
- (c) consideration should be given to enhancing the KCFRS in order to provide greater financial assistance to the needy families.

9. Taking into account the Committee's proposals, we consider that increasing government support for KG education by means of increasing the voucher subsidy can better help to both alleviate the pressure of KGs in meeting the increased operating costs, and maintain the affordability of KG education for parents. In addition, with the increase in the voucher subsidy, the fee thresholds will be adjusted upwards correspondingly (based on the established formula that the fee threshold for HD KG classes under PEVS is set at 1.5 times of the voucher subsidy, while the fee threshold for WD KG classes would be 2 times that for HD KG classes). This will allow the KGs more room to increase the school fees to meet the teachers' salary, rental and other operating expenses, instead of passing the costs onto parents.

10. Currently, children from needy families can apply for fee remission<sup>2</sup> under KCFRS, with the fee remission ceilings capped at the weighted average fee. We propose raising the fee remission ceiling to the 75<sup>th</sup> percentile of school fees of KGs under PEVS in addition to increasing the voucher subsidy, so as to facilitate the access by children from needy families to a wider range of KGs.

11. To ensure the school fees of KGs would be maintained at a reasonable level and the resources from school fees would be used prudently, the EDB will continue to examine KGs' applications for fee revision in accordance with the established mechanism. Specifically, we will vigorously scrutinize each application to ensure that only expenditure of allowable items<sup>3</sup> would be considered for fee revision purpose. The EDB will also carefully consider the overall financial and operational conditions of KGs to assess the necessity for and scope of fee revision.

## FINANCIAL IMPLICATIONS

12. We estimate that the implementation of the proposed one-off measures on PEVS and KCFRS will incur additional expenditure of \$893.65 million in total for the 2014/15 and 2015/16 school years, with breakdown as follows –

	<b>2014/15 school year (\$ million)</b>	<b>2015/16 school year (\$ million)</b>	<b>Total (\$ million)</b>
<b>PEVS</b>	253.12	520.82	773.94
<b>KCFRS</b>	91.52	28.19	119.71
<b>Total</b>	344.64	549.01	893.65

The proposed one-off adjustment on the voucher subsidy of PEVS will replace the annual adjustment mechanism according to CCPI movement as approved by FC earlier during the 2014/15 and 2015/16 school years. Meanwhile, the fee remission ceilings under the KCFRS will be revised from the respective weighted average

/fees .....

<sup>2</sup> The KCFRS provides parents-in-need with financial assistance in the form of fee remission for their children to receive pre-primary services. Kindergarten children of needy families who require financial assistance on top of the fee subsidy from the PEVS may apply for fee remission under the KCFRS, subject to a fee remission ceilings based on the weighted average fees of the relevant type of kindergartens (i.e. HD or WD kindergartens).

<sup>3</sup> Allowable items refer to those directly relating to teaching and learning, school operation and maintenance of education services.

fees of HD and WD KGs under the PEVS, as approved by FC earlier, to the 75<sup>th</sup> percentile of the school fees of the respective KGs during the 2014/15 and 2015/16 school years. We have earmarked sufficient provision in the 2014-15 draft Estimates and will do the same in the draft Estimates of the relevant subsequent years.

13. Since the maximum levels of special grant to cover KG fee under the Comprehensive Social Security Assistance (CSSA) Scheme are pegged to the fee remission ceilings under the KCFRS, there will be consequential additional expenditure on the CSSA Scheme due to the implementation of the measures proposed above. We estimate that this will incur an additional expenditure of about \$26 million and \$16 million in the 2014/15 and 2015/16 school years respectively.

14. The actual amount of disbursement each year under the PEVS, the KCFRS and the CSSA special grant to cover KG fees will depend on a series of factors, including the actual student population, the number of applications, the result of the means test of individual applicants, the number of HD and WD enrolment, and the level of KG school fees, etc.

## **IMPLEMENTATION PLAN**

15. Subject to the approval of FC, we plan to inform the KGs of the approved amount of voucher subsidy as well as school fee thresholds for the 2014/15 school year in early March 2014 to facilitate their consideration of applying for fee revision. This will allow sufficient time for the KGs to submit their fee revision applications and our issuing of the fees certificates before the commencement of the school year in August/September 2014.

## **PUBLIC CONSULTATION**

16. As set out in paragraph 3 above, the Committee has gauged the views of the KG sector and different stakeholders and conducted in-depth study on various issues relating to KG education before making its recommendations on the short-term measures. The Committee's recommendations on the short-term measures as set out in paragraph 8 above were fully discussed in the Sub-committee on Funding Mode and subsequently endorsed in the Committee meeting on 15 October 2013. We expect that the KG sector would generally welcome the proposed increase in the voucher subsidy and fee threshold of the PEVS, and needy parents would also welcome the revision of the fee remission ceiling of the KCFRS.

/As .....

As mentioned above, increasing the voucher subsidy can better help to both alleviate the pressure of KGs in meeting the increased operating costs, and maintain the affordability of KG education for parents. The revision of the fee remission ceiling will also facilitate the access by children from needy families to a wider range of KGs.

17. Nonetheless, there have been calls from the sector for providing additional subsidy for WD KGs, particularly those KGs operating long hours and on school holidays (“long WD KGs”). We wish to point out that the proposed increase in the voucher subsidy and fee thresholds will create more capacity for KGs, including the “long WD KGs”, to increase their school fees according to their needs (without passing the financial burden onto parents). We understand that some “long WD KGs” have admitted a relatively large number of students from needy families, and these students will also benefit from the revision of the fee remission ceiling. It should also be noted that the “long WD KGs”, which are former aided centres operating previously under the Social Welfare Department (SWD), have been receiving recurrent subvention from the EDB to help meet the cost of operating expenses (e.g. rental and management fees). They can also apply for grants for individual projects on improvement of school facilities and refurbishment through the Lotteries Fund administered by SWD. The Committee will continue to study the issue and recommend in its final report practicable ways to address the different needs of HD and WD KGs in the long run.

18. We consulted the Legislative Council Panel on Education on 27 January 2014 on the proposal. While some Members expressed concern that the proposed short-term measures may not fully address the needs of the “long WD KGs”, Members of the Panel agreed that the proposal be submitted to FC.

## **BACKGROUND**

19. KGs are privately run and are supposed to operate on a self-financing basis with the operating costs met mainly by school fee income. The Government introduced the PEVS vide FCR(2006-07)29 in the 2007/08 school year to provide non-means-tested fee subsidy, in the form of a voucher, for parents to defray school fees should their children study in eligible KGs that meet the prescribed quality, fee and other requirements. The objective of the PEVS is to alleviate the financial burden on parents and induce quality enhancement of KGs under the PEVS without affecting the privately-run nature of KG education. To ensure the affordability of KG education for local students, only non-profit-making KGs offering a full local curriculum and charging tuition fees not exceeding the specified fee thresholds are eligible to join the PEVS. As approved by FC vide FCR(2011-12)38, with effect

/from .....

from the 2012/13 school year, the voucher subsidy and fee thresholds for KGs under the PEVS is adjusted annually by SED under delegated authority with reference to the CCPI (in case of deflation, the fee thresholds are frozen). For the 2013/14 school year, the voucher subsidy is \$17,510 pspa while the fee thresholds for KGs under the PEVS are \$26,260 and \$52,520 pspa for HD and WD KG classes respectively.

20. Apart from providing non-means tested fee subsidy to parents through the PEVS, the Government also provides additional means-tested fee subsidy under the KCFRS for needy families to ensure that children will not be deprived of the opportunity for KG education due to lack of means. As approved by FC vide FCR(2009-10)34, the fee remission ceilings of KCFRS are adjusted annually on the basis of the respective weighted average fees of the HD and WD KGs eligible for the PEVS. In the 2013/14 school year, the fee remission ceilings are \$21,300 and \$34,500 for HD and WD KG classes respectively.

-----

Education Bureau  
February 2014