

CHAPTER 3

Education Bureau

Pre-primary Education Voucher Scheme

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PRE-PRIMARY EDUCATION VOUCHER SCHEME

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PRE-PRIMARY EDUCATION VOUCHER SCHEME

Executive Summary

1. Kindergarten (KG) education in Hong Kong refers to the 3-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 or private-independent. There is a great diversity among 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. The Education Bureau (EDB) introduced the Pre-primary Education Voucher Scheme (Voucher Scheme) with effect from 2007/08 (school year). The Government's vision is for all relevant-aged children to receive affordable and quality KG education.

2. Under the Voucher Scheme, the Government provides fee subsidy in the form of a voucher to the parents of KG students to meet part of KGs' school fees, with the aim to alleviate parents' financial pressure and facilitate parental choice. For the first four school years of 2007/08 to 2010/11, KGs were expected to spend the balance of the voucher value on professional upgrading of teachers and principals. Over the five years of 2007/08 to 2011/12, the Government had spent some \$8.5 billion on the Scheme. Starting from 2012/13, the Scheme would involve the spending of over \$2 billion a year. Given the significant investment in the Scheme, the Audit Commission (Audit) has recently conducted a review of the KG education services administered under the Scheme.

Contributions by the Voucher Scheme

3. Today, KG education is highly valued by parents. KG education in Hong Kong has an enrolment rate of about 100%. Audit recognises the contribution of the Voucher Scheme in easing the financial burden on parents. In 2007/08, with the fee subsidy provided under the Scheme of \$10,000 per student per annum (pspa), parents had to pay, on average, \$7,200 (for half-day class) pspa, as compared with \$15,169 in 2006/07 (before the Scheme was introduced). Because the scheduled increase in fee subsidy since 2007/08 had outpaced the increase of school fees for some Scheme KGs

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(KGs participating in the Scheme), Audit has found that in 2012/13, parents of 68 Scheme KGs are not required to pay any school fee, as compared with 4 in 2007/08 (paras. 2.17 to 2.19).

Professional development of KG principals and teachers

4. One key objective of the Voucher Scheme is to raise the quality of KG education by subsidising the professional development of serving KG principals and teachers through the provision of a training subsidy (see para. 2 above). Although the training subsidy had lapsed in 2011/12, as at September 2012 (start of school year 2012/13), 13 (2%) principals and 1,203 (14%) teachers serving in Scheme KGs had yet to complete their professional upgrading (paras. 3.2 and 3.8).

5. To upkeep a stable team of qualified teaching staff is important to KGs. High wastage/turnover of teachers may adversely affect the quality of KG education. With the implementation of the Voucher Scheme, the wastage rate of teachers for the local KG sector had dropped from 11.5% in 2006/07 to 7.1% in 2011/12. Audit however noted that in 2010/11, the average teachers' turnover rate (by individual KGs) for Scheme KGs was 22%, with turnover rates of over 60% in 26 Scheme KGs. The high teacher turnover rate may affect the quality and stability of Scheme KGs and warrants the EDB's attention (paras. 3.14, 3.15, 3.19 to 3.21).

Regulatory measures

6. The EDB has instituted various regulatory controls over the financial operation of Scheme KGs. These controls include approval of school fees and lunch charges, annual review of audited accounts, on-site inspections and surprise headcount inspections (para. 5.2).

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

7. School fees for Scheme KGs have to be approved by the EDB and cannot exceed the fee ceilings set by the EDB. In 2010/11, some 280 (37%) Scheme KGs incurred net deficits. Audit has also found that in 2012/13, school fees for a half-day place in the majority of the Scheme KGs are approaching the school fee ceiling of \$25,200 pspa, with 24% of the Scheme KGs charging fees of over \$23,000 pspa.

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Among the 26 Scheme KGs which are charging school fees at the fee ceiling, 12 reported to have incurred operating deficits in 2010/11. Besides, Audit has noted a wide gap between the school fees of Scheme KGs and non-Scheme KGs (paras. 5.10, 5.11 and 5.14).

Significant miscellaneous fees charged by some Scheme KGs

8. To safeguard the interest of parents and students, the EDB has required Scheme KGs to comply with a set of principles on trading activities (such as profit limits) 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 can readily be identified. Through its regulatory checks, the EDB had identified cases in which Scheme KGs (e.g. some 120 Scheme KGs in 2010/11) had made profits exceeding the specified limits for the sale of optional school items and services (paras. 5.19 and 5.20).

9. Unlike school fees and lunch charges which require the EDB’s approval, miscellaneous fees charged by KGs for trading activities (i.e. sale of optional school items and paid services) do not require such approval. Audit found that some Scheme KGs charged miscellaneous fees of significant amounts in total. In extreme cases, such miscellaneous fee income collected by individual Scheme KGs was equivalent to 24% to 44% of their school fee income. Audit also found that Scheme KGs had reported their miscellaneous fee income as “other operating income” and/or “income from trading activities” in their audited accounts. With miscellaneous fee income grouped under “other operating income”, they may bypass the requirement for reporting in the “statements of profit/loss from trading activities” (see para. 8 above) and may elude the specified profit limits and the EDB’s examination for justification and reasonableness. Audit is concerned if such fees should have been covered in the school fees (paras. 5.18, 5.24, 5.25 and 5.27).

Some Scheme KGs are receiving rental reimbursement from the EDB

10. 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 non-profit-making 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 (paras. 5.29 and 5.32).

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11. New applications for rental reimbursement will be considered only when there is a shortage of KG places in the district of the relevant KGs. However, once reimbursement is granted, shortage of KG places is not a factor affecting the KG's eligibility for continuing the reimbursement in subsequent years. In these circumstances, KGs continue to receive rental reimbursement even though there is no longer a shortage of KG places in their districts. Based on the EDB's records, in 2012/13, 392 Scheme KGs were granted rental reimbursement while others were not. Audit has noted that KGs not receiving rental reimbursement are however subject to the same terms and conditions under the Voucher Scheme as those receiving rental reimbursement (para. 5.32).

Disclosure and transparency

12. 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 9 above, miscellaneous fees charged by some Scheme KGs could be quite substantial. Audit however noted that 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 2011/12, 60% of the total amounts of the miscellaneous fees they charged were not disclosed in the KG Profile (paras. 6.3, 6.4, and 6.6).

Declining participation in the Voucher Scheme

13. When the Voucher Scheme was introduced, the EDB estimated that 80% of the KGs would join the Scheme, covering 90% of the eligible children. In 2007/08, the Scheme participation rate was 78% by KGs (excluding 75 private-independent ones which joined the Scheme) and 86% by students. As at September 2012 (start of 2012/13), the Scheme participation rate was 77% by KGs and 79% by students. As at September 2012, 22 non-profit-making local KGs did not participate in the Scheme. In October 2012, 14 Scheme KGs informed the EDB that they would opt out with effect from 2013/14 (paras. 7.5, 7.7 to 7.9).

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Challenges ahead

14. In his 2013 Policy Address, the Chief Executive of the Hong Kong Special Administrative Region Government announced that the EDB would set up a committee to examine the feasibility of free KG education and recommend specific proposals to enable all children to have access to quality KG education (para. 1.8).

Audit recommendations

15. Audit recommendations are made in PART 7 of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit *has recommended* that the Secretary for Education should:

Contributions by the Voucher Scheme

- (a) conduct a review of the Voucher Scheme with a view to enhancing the Scheme, so that it will continue to be effective in meeting the expectations of the stakeholders (para. 7.11(a));

Professional development of KG principals and teachers

- (b) explore how assistance and support, outside the Voucher Scheme, can further be provided to KG principals and teachers who have yet to complete their professional upgrading (para. 7.11(b));
- (c) keep in view the turnover rate of KG teachers and provide advice to Scheme KGs with a high turnover rate (para. 7.11(d));

Regulatory measures

- (d) in the forthcoming review of KG education, devise a suitable mechanism, if appropriate, for regular review of the school fee ceilings to cater for special adjustments required due to changes in circumstances in addition to inflation (para. 7.11(h));

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- (e) 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 (para. 7.11(i));
- (f) 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 (para. 7.11(k));
- (g) review the EDB's KG rent reimbursement practices in its forthcoming review of KG education, and revise them if necessary (para. 7.11(l));

Disclosure and transparency

- (h) enhance the transparency and disclosure by requiring Scheme KGs to publish additional items of miscellaneous fees in the KG Profile (para. 7.11(o)); and

Way forward

- (i) keep in view the changes in the participation rates of KGs and KG students in the Voucher Scheme, and explore ways to address the challenges faced by Scheme KGs and the parents of KG students in the forthcoming review of KG education (para. 7.11(q)).

Response from the Education Bureau

16. The Secretary for Education has said that he fully appreciates Audit's efforts in conducting this review and the EDB will consider the audit recommendations and take follow-up actions as appropriate. He has also said that the Committee on Free KG Education, to be set up in April 2013, will examine the various aspects of free KG education, identify issues for possible improvements, consider various options, and make recommendations to the EDB on the way forward, taking into consideration the audit recommendations in this Audit Report.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Importance of kindergarten education

1.2 It is the current Government policy to provide 12-year free primary and secondary education, covering 9-year compulsory education (primary and junior secondary). Kindergarten (KG) education in Hong Kong refers to the 3-year KG programme for children from three to six years old. Although KG education is not part of the compulsory education, most parents enrol their children in the programme. According to the Education Bureau (EDB), the aim of KG education in Hong Kong is to nurture children to attain all-round development in the domains of intellect, ethics, physique, social skills and aesthetics, and to develop good habits so as to prepare them for life, and to stimulate children's interest in learning and cultivate in them positive learning attitudes. KG education is well recognised as an important stage which lays the foundation for life-long learning and whole person development.

KGs in Hong Kong

1.3 In Hong Kong, all KGs are privately run. KGs can be categorised as:

- (a) non-profit-making (NPM) KGs (i.e. exempt from tax under Section 88 of the Inland Revenue Ordinance, Cap. 112); and
- (b) others which are private-independent (PI) KGs.

All KGs are registered with the EDB under the Education Ordinance (Cap. 279). KG-cum-child care centres (KG-cum-CCCs — Note 1), governed by both the Education Ordinance and the Child Care Services Ordinance (Cap. 243), can be co-located to serve children aged 0 to 6. Inspectors from the EDB visit KGs (including KG classes in KG-cum-CCCs) regularly to give advice to principals and teachers on

Note 1: CCCs are registered with the Social Welfare Department. They comprise day nurseries and day creches to provide services to infants and toddlers aged below two and children aged two to six. For simplicity, relevant classes in KG-cum-CCCs serving children aged 3 to 6 are also classified as KGs in this Audit Report.

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curriculum, teaching approaches and school administration. The EDB also has a number of regulatory measures over the financial operation of KGs.

1.4 There is a great diversity among 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 2012/13 — Note 2), 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), as shown in Table 1.

Table 1
Number of students enrolled in local and non-local KGs
(2012/13)

Number of students enrolled	Local KGs	Non-local KGs	Total	
			Number	Percentage
< 50	66	32	98	10%
50 — < 100	257	28	285	30%
100 — < 200	256	27	283	30%
200 — < 300	157	5	162	17%
300 — < 400	62	3	65	7%
400 — < 500	30	—	30	3%
≥ 500	33	1	34	3%
Total	861	96	957	100%

Source: EDB records

Note 2: Unless otherwise specified, all years mentioned in this Audit Report refer to school years, which start on 1 September of a year and end on 31 August of the following year.

The Pre-primary Education Voucher Scheme

1.5 Government investment in pre-primary education in financial year 2005-06 only made up 2.8% of the total recurrent education expenditure. At that time, the Government operated a Kindergarten and Child Care Centre Subsidy Scheme (KCSS — Note 3) to provide subsidy to eligible KGs to encourage them to enhance the qualifications of their teaching force by employing more qualified KG teachers without having to increase their fees substantially. Given the significant impact of KG education on children's development, the Government considered it appropriate to increase its investment in KG education. In the 2006-07 Policy Address, the Chief Executive of the Hong Kong Special Administrative Region Government announced a major financial commitment to further strengthen KG education.

1.6 In November 2006, the Chief Executive-in-Council endorsed the introduction of the Pre-primary Education Voucher Scheme (Voucher Scheme) with effect from 2007/08. In January 2007, the EDB announced the implementation of the Voucher Scheme. Under the Scheme, the Government provides fee subsidy in the form of a voucher, not to the KGs, but to the parents of KG students to meet part of KGs' school fees, with the aim to alleviate parents' financial pressure and facilitate parental choice. For the first four years of 2007/08 to 2010/11, KGs were expected to spend the balance of the voucher value on professional upgrading of teachers and principals. This helps enhance the quality of KG education. The Government vision is for all relevant-aged children to receive affordable and quality KG education, which is to be achieved through:

- (a) parental choice, facilitated by direct fee subsidy to parents in the form of a voucher, coupled with transparency of KG operations;
- (b) well-qualified teaching staff, facilitated by financial support for professional upgrading and ongoing professional development; and
- (c) accountability, facilitated by a quality assurance mechanism that combines self-evaluation with the EDB's quality review (QR).

Note 3: *As at 2006/07, the subsidy rate for eligible KGs under the KCSS was \$30,018 a year per group of 15 KG students or \$3,002 per capita for part thereof. With effect from 2008/09, the KCSS was renamed as the "Child Care Centre Subsidy Scheme" and continued to apply to CCCs, but not KGs.*

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At various meetings in 2006 and 2007, the EDB informed the Legislative Council (LegCo) that the Voucher Scheme was introduced primarily to increase the Government investment in pre-primary education. By providing fee subsidy direct to parents, the Government could avoid imposing the elaborate regulatory controls embodied in the traditional subvention model, so as to preserve the existing flexibility and adaptability of KGs. The Government wishes to preserve the market responsiveness of the sector and to enhance quality at the same time.

1.7 To implement the Voucher Scheme, the EDB, including the Student Financial Assistance Agency (SFAA — Note 4) of the Bureau, had created some 50 non-directorate civil service posts under its establishment, involving staff cost of about \$23 million a year.

More recent development

1.8 In the financial year 2012-13, Government investment in pre-primary education constituted 4.8% of the total recurrent education expenditure. The Administration has indicated that KG education is one of the priorities of the current-term Government. In his 2013 Policy Address, the Chief Executive announced that:

- (a) the EDB would set up a committee to examine the feasibility of free KG education and recommend specific proposals to enable all children to have access to quality KG education; and
- (b) to help KGs participating in the Voucher Scheme (Scheme KGs) improve their school premises and teaching facilities, the Government would provide them with an additional one-off grant in 2013/14 for conducting minor improvement works and procuring furniture and learning resources.

Note 4: *The SFAA is responsible for assessing the eligibility of applicants under the Voucher Scheme and for administering the KG and CCC Fee Remission Scheme.*

Audit review

1.9 Given the significant investment in the Voucher Scheme, the Audit Commission (Audit) commenced a review of the KG education services administered under the Scheme in mid-2012, and fieldwork was completed in December 2012. This Audit Report is produced with focus on the following areas:

- (a) overview of the Voucher Scheme and its financial features (PART 2);
- (b) professional development of KG principals and teachers (PART 3);
- (c) quality assurance mechanism (PART 4);
- (d) regulatory measures (PART 5);
- (e) disclosure and transparency (PART 6); and
- (f) way forward (PART 7).

In this Audit Report, Audit has identified areas where improvements can be made and has made recommendations to address the issues identified.

1.10 As part of this review, in late 2012 Audit conducted a questionnaire survey of 188 Scheme KGs on the miscellaneous fees they charged for the provision of school items and paid services. In addition, in mid-2012 Audit interviewed 30 Scheme KGs, including four ex-Scheme KGs which had opted out of the Voucher Scheme. Details of the two audit surveys are shown at Appendix A.

General response from the Education Bureau

1.11 The Secretary for Education has said that he fully appreciates Audit's efforts in conducting this review and making recommendations to improve the Voucher Scheme, and the EDB will consider the audit recommendations and take follow-up actions as appropriate. He has also said that:

- (a) the Government introduced the Voucher Scheme in 2007, aiming to alleviate the financial burden on parents and induce improvement to the quality of KG education. Intervening with the private-sector operation of the KG sector

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was not part of the policy intention. Implementation details, including the regulatory and monitoring measures, ought to be policy-led. Hence, the regulatory and monitoring measures introduced alongside the Voucher Scheme were formulated with the policy aims of the Scheme in mind. In brief, they aimed at avoiding the erosion of the impact of the Scheme in enhancing parents' affordability, inducing quality improvement and forestalling abuse with a view to safeguarding the proper use of public revenue;

- (b) the EDB appreciates the audit observations and recommendations made in this review and will step up its monitoring measures and support for Scheme KGs as appropriate, with a view to enhancing their accountability and transparency to facilitate parental choice and ensure the quality of KG education; and
- (c) the Committee on Free KG Education, to be set up in April 2013, will examine how to practically implement free KG education and recommend specific proposals to take this forward. Specifically, the Committee will 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 this Audit Report.

Acknowledgement

1.12 Audit would like to acknowledge with gratitude the full cooperation of the staff of the EDB during the course of the audit review.

PART 2: OVERVIEW OF THE VOUCHER SCHEME AND ITS FINANCIAL FEATURES

2.1 This PART conducts a general review of the Voucher Scheme and its financial features.

Objectives of the Voucher Scheme

2.2 Before the implementation of the Voucher Scheme, parents of KG students had to pay for the full amount of the approved school fees. Under the Scheme, each eligible child is issued a voucher to be redeemed by the Scheme KG. For the first four years of the Scheme, a major part of the voucher value was for school fee subsidy whereas the remaining was provided to the KGs for the professional development of teachers. Starting from 2011/12, the whole amount of the voucher was for fee subsidy (see para. 2.6). As mentioned in paragraph 1.6, the objectives of the Scheme are to ease the financial burden on parents and to raise the quality of KG education through the provision of training subsidy to upgrade the professional qualification of KG principals and teachers. The operation of the Scheme is different from the previous KCSS (see para. 1.5) in that:

- (a) the KCSS (involving expenditure of \$180 million in the financial year 2006-07) provided subsidies direct to KGs to encourage them to enhance the qualifications of their teaching force by employing more qualified KG teachers without having to increase their school fees substantially. Under the KCSS, the KGs had to be NPM, were required to pay teachers according to a normative salary scale and employ 100% teachers with Qualified Kindergarten Teacher qualification (QKT — Note 5) based on a “QKT teacher to student” ratio of 1:15; and
- (b) the Voucher Scheme (involving expenditure of \$2.2 billion in the financial year 2012-13) provides direct fee subsidies to parents. Under the Scheme:

Note 5: *A QKT teacher is one who has completed a 360-hour basic KG teacher training programme.*

Overview of the Voucher Scheme and its financial features

- (i) every child aged above two years and eight months (Note 6) attending a Scheme KG is eligible for a voucher, which will be redeemed by the KG concerned; and
- (ii) all Scheme KGs have full discretion in determining their teacher salaries, but they are required to employ sufficient number of teachers possessing a Certificate in Early Childhood Education (C(ECE) — Note 7) based on the “C(ECE) teacher to student” ratio of 1:15 with effect from 2012/13.

Overview of the Voucher Scheme

Salient features of the Voucher Scheme

2.3 Since 2007/08, the Voucher Scheme has operated on the following principles:

- (a) subject to a transitional period of three years from 2007/08 to 2009/10 (Note 8), only NPM local KGs are eligible to join the Voucher Scheme;
- (b) the voucher should only be redeemed by NPM local KGs charging a school fee not exceeding \$24,000 per student per annum (pspa) for a half-day (HD) place or \$48,000 pspa for a whole-day (WD) place. The ceilings remained the same until they were revised to \$25,200 and \$50,400 respectively for 2012/13. Thereafter, the ceilings are subject to annual review with reference to the Composite Consumer Price Index (CCPI);
- (c) the Scheme KGs should meet all disclosure and transparency requirements stipulated by the EDB;

Note 6: *This ties in with the minimum age for admission to primary one, which is five years and eight months.*

Note 7: *The C(ECE) programme is a 3-year in-service course which aims at further developing teachers’ knowledge and skills to become competent, caring and reflective preschool educators.*

Note 8: *PI KGs were given a transitional period of three years, from 2007/08 to 2009/10, to satisfy all prescribed requirements of the Scheme, save for the NPM status to join the Scheme.*

Overview of the Voucher Scheme and its financial features

- (d) all Scheme KGs are subject to a quality assurance mechanism. Starting from 2012/13, only KGs which meet the prescribed standards may redeem the voucher; and
- (e) all Scheme KGs have full discretion in determining their teachers' salaries.

2.4 As the EDB informed the Panel on Education of the LegCo (LegCo Panel) in November 2006, the Voucher Scheme should operate with the following conditions:

- (a) it should keep wide eligibility, but should not be regarded as an entitlement, as under the current public policy, pre-primary education is not compulsory;
- (b) it should operate in a wholly private market, but should restrict eligibility to NPM KGs in line with the existing policy so that all government funding will be invested in the students (Note 9);
- (c) it should be tied to a quality assurance mechanism which ensures that only those KGs meeting the prescribed standards may join the Scheme;
- (d) it is non-means-tested and will allow the vast majority of parents to choose and access a large number of KGs. Parents will have to pay for the difference in case the school fee exceeds the voucher value; and
- (e) it requires enhanced transparency of the KGs' operations.

2.5 Every child of the relevant age with right of abode, right to land or valid permission to remain without any condition of stay in Hong Kong attending a Scheme KG is eligible for the voucher, to be redeemed by the Scheme KG which he or she is attending. Parents of eligible children are required to apply for a Certificate of Eligibility. The Certificate has a validity period of one to three years depending on the age and the study level of the child. Based on the Certificates of the students admitted, the Scheme KG can redeem the vouchers in cash from the Government.

Note 9: *NPM KGs may budget for a reserve to meet their cash flow requirements, but the reserve must all be re-invested in the KG operation.*

Overview of the Voucher Scheme and its financial features

Schedule of voucher value

2.6 For 2007/08 to 2011/12, the voucher value under the Voucher Scheme was as follows:

School year	Voucher value (\$)	Amount of voucher attributed to fee subsidy (Note) (\$)	Amount of voucher attributed to teacher development (\$)
2007/08	13,000	10,000	3,000
2008/09	14,000	11,000	3,000
2009/10	14,000	12,000	2,000
2010/11	16,000	14,000	2,000
2011/12	16,000	16,000	0

Note: As the EDB had informed the LegCo Panel, the provision of fee subsidy had built in roughly a 10% increase between years to compensate for inflation, teachers' salary increment and qualification development over the years.

For school fees exceeding the fee subsidy level, parents had to pay the difference. Families with financial difficulties could apply for fee remission through a means-tested Fee Remission Scheme (which was established long before the Voucher Scheme) for additional support. The fee subsidy was subject to revisions with effect from 2012/13 with reference to the CCPI (see para. 2.3(b)).

Setting of school fee ceilings

2.7 Under the Education Ordinance and the Education Regulations (Cap. 279A), all KGs, including Scheme KGs, have to submit their school fee and revision proposals to the EDB for approval. To deter erratic increases in school fees of Scheme KGs, the EDB set the following school fee ceilings for the years 2007/08 to 2011/12:

Overview of the Voucher Scheme and its financial features

School fee ceiling	
HD place (pspa)	WD place (pspa)
\$24,000	\$48,000

The school fee ceilings were set with reference to the subsidy levels under the Scheme. For example, the HD school fee ceiling was set at \$24,000 pspa for 2007/08 to 2011/12, taking into account the progressive increase of the subsidy to \$16,000 in 2011/12 (see para. 2.6) and the provision of a 50% margin (\$8,000) to cater for the difference in fee levels among KGs. Similar to the fee subsidy, with effect from 2012/13, the school fee ceilings were subject to revisions with reference to the CCPI (see paras. 2.3(b) and 2.11(b)).

Major enhancements to the Voucher Scheme

2.8 Because of stakeholders' concerns about the Voucher Scheme after its implementation, in 2008 and 2009, the LegCo Panel held a series of meetings to discuss the Voucher Scheme and to receive views of deputations. At the meetings, various issues were discussed, including:

Overview of the Voucher Scheme and its financial features

- Extension of the transitional period for PI KGs to convert to NPM KGs
- The availability of a mechanism to adjust the voucher value in accordance with inflation
- The continued setting of a recommended normative salary scale for KG teachers
- The need for KG teachers to meet the professional upgrading before 2011/12 and the lapse of the teacher development subsidy by 2011/12
- Given the smaller number of students in WD KGs (Note), the amount of subsidies received by WD KGs were substantially less than HD KGs
- The ceilings on fee remission were fixed at \$16,000 pspa for HD KG classes and \$25,400 pspa for WD KG classes, with no revision for inflation

Note: In 2009/10, some 34,000 (29%) of the 119,000 Scheme KG students receiving voucher subsidy were studying in WD classes.

In June 2009, the LegCo passed a motion to urge the Government to establish a committee to adjust the fee remission ceilings under the Fee Remission Scheme and to immediately review the Voucher Scheme.

2.9 In mid-2009, the EDB introduced an enhancement to the Fee Remission Scheme. To address the concern of needy families regarding the choice of affordable KGs under the Voucher Scheme, the Government has, from 2009/10 onwards, reinstated an annual adjustment mechanism to the fee remission ceilings on the basis of the HD and WD weighted average school fees in Scheme KGs.

Overview of the Voucher Scheme and its financial features

2.10 In October 2009, the EDB set up a working group under the Education Commission (Note 10) to gauge the views of stakeholders on the implementation of the Voucher Scheme and to make recommendations to the Government for improvement. The review was completed in December 2010. The Commission concluded that the Scheme, operating within the existing Government policies, had enhanced affordability and parental choice while maintaining flexibility for KGs, and should be continued. Nonetheless, the Commission considered that the Scheme should further facilitate, within the Scheme framework, the professional and governance improvement of the KG sector. In addition, access to affordable and quality pre-primary education by needy families should also be enhanced. In this connection, the Commission made 12 recommendations on the way for improvement (details are at Appendix B), all of which had been considered by the EDB and improvement measures introduced as appropriate.

2.11 In the light of the Education Commission's recommendations, enhancements to the Voucher Scheme were made with approval from LegCo, including the following:

- (a) enhancing with effect from 2011/12 the assistance provided to KG children of needy families by:
 - (i) revising the calculation formula of fee remission under the Fee Remission Scheme;
 - (ii) removing the social needs assessment for eligibility for WD rate of fee remission; and
 - (iii) adjust meal allowance ceiling for needy children attending WD KGs with reference to the Consumer Price Index (A); and

Note 10: *The Education Commission was set up in 1984 as a non-statutory body to advise the Government on the overall development of education in the light of the community's needs.*

Overview of the Voucher Scheme and its financial features

- (b) revising with effect from 2012/13:
 - (i) the voucher value and the school fee ceilings annually with reference to the CCPI; and
 - (ii) the schedule for disbursing voucher subsidy to KGs to follow the school fee payment schedule to facilitate their administrative and accounting work.

With the above enhancements, the Scheme has built in more flexibility to cope with inflation. For 2012/13, the following revisions were made:

Revision	HD class (pspa)	WD class (pspa)
Voucher value	\$16,800	\$16,800
School fee ceiling	\$25,200	\$50,400

Scheme spending

2.12 Over the five school years of 2007/08 to 2011/12, the Government had spent some \$8,500 million on the Voucher Scheme, covering \$7,500 million on school fee subsidy and \$1,000 million on teacher development subsidy (see Table 2). Starting from 2012/13, the Scheme would involve the spending of an amount in excess of \$2 billion a year.

Overview of the Voucher Scheme and its financial features

Table 2

**Subsidies redeemed by KGs under the Voucher Scheme
(2007/08 to 2011/12)**

School year	School fee subsidy		Teacher development subsidy		Total amount	
	(a)		(b)		(c) = (a) + (b)	
	Per student (\$)	Total (\$ million)	Per student (\$)	Total (\$ million)	Per student (\$)	Total (\$ million)
2007/08	10,000	1,071	3,000	153	13,000	1,224
2008/09	11,000	1,229	3,000	226	14,000	1,455
2009/10	12,000	1,419	2,000	252	14,000	1,671
2010/11	14,000	1,704	2,000	229	16,000	1,933
2011/12	16,000	2,037	Nil	203 (Note)	16,000	2,240
Total	—	7,460	—	1,063	—	8,523

Source: EDB records

Note: Scheme KGs were allowed to spend the teacher development subsidy until the end of 2011/12.

As mentioned in paragraph 2.6, needy families could apply for additional fee subsidy under the Fee Remission Scheme for the balance of the school fees not covered by the Voucher Scheme.

2.13 According to the EDB records, in the six years from 2007/08 to 2012/13, the following number of KG students had received/were receiving fee subsidy under the Voucher Scheme:

Overview of the Voucher Scheme and its financial features

Beginning of school year	Number of students receiving voucher subsidy (000's)
2007/08	120
2008/09	118
2009/10	119
2010/11	123
2011/12	129
2012/13	129 (Note)

Source: EDB records

Note: The 2012/13 figure is subject to adjustment at the end of the school year.

It can be seen that the number of eligible students has grown by 8% from 120,000 in 2007/08 to 129,000 in 2012/13.

2.14 As at September 2012, 735 of the 861 local KGs in paragraph 1.4 were Scheme KGs. These Scheme KGs had the following characteristics:

- 395 Scheme KGs provided both HD and WD classes, 219 only WD classes and 121 only HD classes.
- They were operated by 243 sponsoring bodies, 7 of which each operated 16 to 47 Scheme KGs. In total, the 7 sponsoring bodies operated 179 (24% of 735) Scheme KGs.
- Scheme KGs included 103 former PI KGs (see Note 8 to para. 2.3(a)) which had converted to NPM status for participation in the Scheme.
- 282 (38% of 735) Scheme KGs were small in size, having less than 100 students and less than 13 teachers. Only 25 Scheme KGs had enrolled 500 or more students.
- Of 10,288 KG teachers serving in local KGs, 8,517 (83%) were working in Scheme KGs.

Source: EDB records

2.15 The Government provided a total Scheme subsidy of \$1,224 million in 2007/08, which was increased to \$2,240 million in 2011/12 (see Table 2 in para. 2.12). For the financial years of 2006-07 to 2011-12, Government investment in pre-primary education had risen from 2.7% to 4.8% of the total recurrent education expenditure.

Audit findings

2.16 In this review, Audit has found that the Voucher Scheme had contributed to promoting KG education and easing parents' financial burden (see paras. 2.17 to 2.20). Nonetheless, Audit has also found areas for improvement, as summarised in paragraphs 2.21 to 2.30.

Contributions by the Voucher Scheme

2.17 Today, KG education is highly valued by parents. In November 2012, the EDB informed the LegCo that KG education in Hong Kong had an enrolment rate of about 100%. The Education Commission also reported in its 2010 review (see para. 2.10) that about 85% of KG students had received direct financial subsidy on school fee through the Voucher Scheme, compared with some 50% under the previous KCSS. As concluded by the Commission, the Scheme had capitalised on the current strengths (i.e. the diversity and vibrancy of the KG sector) to add impetus for continuous improvement by enhancing affordability and parental choice while maintaining flexibility for KGs.

2.18 Audit notes the contribution of the Voucher Scheme in easing the financial burden on parents, as analysed below:

Overview of the Voucher Scheme and its financial features

In 2006/07, the weighted average of school fees in KGs was \$15,169 pspa for HD classes and \$25,311 pspa for WD classes, rising to \$17,200 and \$28,000 in 2007/08. With the fee subsidy of \$10,000 provided under the Voucher Scheme for 2007/08 (see para. 2.6), the amount of school fees paid by parents, on average, had decreased, as shown below:

School year	Fee subsidy pspa (a)	Weighted average school fee pspa (b)	Amount paid by parents pspa (c) = (b) – (a)
2006/07			
HD class	Nil	\$15,169	\$15,169
WD class	Nil	\$25,311	\$25,311
2007/08 (Scheme introduced)			
HD class	\$10,000	\$17,200	\$7,200
WD class	\$10,000	\$28,000	\$18,000

2.19 In November 2006, the EDB informed the LegCo Panel that based on current expenditure of NPM KGs, the prescribed school fee ceilings (see para. 2.7) should be sufficient to cover the cost of quality KG education and would allow the vast majority of parents to access a large number of KGs. With the fee subsidy of \$10,000 pspa in 2007/08 increasing to \$16,800 pspa in 2012/13, Audit noted the following in the six years (2007/08 to 2012/13) of implementing the Voucher Scheme:

- (a) in 2007/08, school fees for only four Scheme KGs were less than the fee subsidy of \$10,000 pspa. This was because the weighted average of school fees in 2007/08 had risen by 13.4% to \$17,200 pspa for HD class and by 10.6% to \$28,000 pspa for WD class (Note 11); and

Note 11: *Scheme KGs under the former KCSS had to reflect the cost previously covered by the KCSS subsidy (of \$2,300 pspa) in their school fee. This had resulted in the apparent “rise” in school fees in 2007/08 when the Voucher Scheme was introduced.*

Overview of the Voucher Scheme and its financial features

- (b) the scheduled increase in fee subsidy since 2007/08 had outpaced the increase of school fees (which were subject to the EDB's approval) for some Scheme KGs, as shown below:

	2007/08	2012/13	
	(a)	(b)	(b)/(a) × 100%
Fee subsidy under the Scheme	\$10,000	\$16,800	168%
School fee (weighted average)	(HD) \$17,200 (WD) \$28,000	(HD)\$20,300 (WD)\$32,800	118% 117%

As a result, Audit has found that in 2012/13, school fees for 68 Scheme KGs are less than the fee subsidy limit of \$16,800. That is, in 2012/13, parents of 68 Scheme KGs' students are not required to pay any school fee, as compared with 4 in 2007/08 (see (a) above).

2.20 The EDB has informed Audit that:

- (a) the Voucher Scheme has brought about positive impact on affordability and parental choice and the professional capacity of KGs and teachers to better respond to the demand for high-quality KG services. All along, the EDB has been implementing the Scheme in accordance with the policy mandate as endorsed by the Chief Executive-in-Council and within the ambit approved by the LegCo Finance Committee; and
- (b) while seeking to enhance the choice of parents, the policy design of the Voucher Scheme is such that the Government should also preserve the flexibility and adaptability of the KGs to provide diverse services responsively to meet the changing needs of the children and their parents.

Professional development of KG principals and teachers (more details are given in PART 3)

2.21 One key objective of the Voucher Scheme is to raise the quality of KG education by subsidising the professional development of all serving principals and teachers in Scheme KGs, through the provision of a training subsidy included in the voucher amount psps (see para. 2.6) in each of the four years 2007/08 to 2010/11. However, as at September 2012, 13 (2%) principals and 1,203 (14%) teachers serving in Scheme KGs had not completed their professional upgrading, but the teacher development subsidy had lapsed in 2011/12.

2.22 It is understood that the KG sector is privately run and the operation of Scheme KGs is not subject to the EDB's elaborative regulatory controls. With the implementation of the Voucher Scheme, the wastage rate of teachers for the local KG sector had dropped from 11.5% in 2006/07 to 7.1% in 2011/12, but the average turnover rate for KG regular teachers (i.e. percentage of teachers leaving individual KGs) in 2010/11 was 22% for Scheme KGs and 27% for non-Scheme KGs. The high teacher turnover rate may call for the EDB's attention.

Quality assurance mechanism (more details are given in PART 4)

2.23 The EDB's quality assurance mechanism, comprising self-evaluations conducted by Scheme KGs and QRs conducted by the EDB, helps enhance the quality of KG education. However, in its 2010 review, the Education Commission reported that many KGs considered the quality assurance mechanism as the source of pressure on the KGs and teachers, particularly as the outcome of the QRs was linked to the KGs' eligibility under the Voucher Scheme. Although the EDB had enhanced the mechanism in 2011/12, 19 of the 30 Scheme KGs interviewed by Audit in mid-2012 considered that the mechanism was complex. Therefore, the EDB needs to keep the quality assurance mechanism under regular review. Given that many of the Scheme KGs are small in size, the EDB needs to provide more support and assistance to the KGs to help them conduct self-evaluations and disseminate the results to parents.

Miscellaneous fees charged by Scheme KGs (more details are given in PART 5)

2.24 The EDB has instituted a system of regulatory measures on the financial operations of Scheme KGs, including approval of school fees and lunch charges (also applicable to non-Scheme KGs), annual review of audited accounts and, for selected Scheme KGs, the conduct of on-site inspections and surprise headcount inspections. Through these regulatory measures, the EDB had identified cases when Scheme KGs (e.g. some 120 Scheme KGs in 2010/11) had made excessive profits from their trading activities (i.e. sale of optional school items and provision of paid services).

2.25 Although parents are subsidised through the Voucher Scheme for the whole or part of the school fees, they have to pay for miscellaneous fees which may be charged by Scheme KGs. To safeguard the interest of parents and students, the EDB has required Scheme KGs to comply with a 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 can readily be identified. Unlike school fees and lunch charges, which require the EDB’s approval, miscellaneous fees charged for trading activities do not require such approval. Audit found that some Scheme KGs had charged significant amount of miscellaneous fees, reaching a level equivalent to 24% to 44% of their school fee income, and some Scheme KGs had grouped the whole or part of their miscellaneous fee income under “other operating income” (instead of “income from trading activities”) in their audited accounts. The grouping of miscellaneous fee income under “other operating income” might have bypassed the requirement for compliance with specified profit limits and the EDB’s examination for justification and reasonableness.

Some Scheme KGs are receiving rental reimbursement from the EDB (more details are given in PART 5)

2.26 The EDB has operated, long before the Voucher Scheme was introduced, a KG rent reimbursement scheme to provide financial assistance to NPM KGs in the form of reimbursement of rentals, rates and government rents. These reimbursements continue after the introduction of the Voucher Scheme. Each year, the Government spent some \$200 million on such reimbursements, with some 85% disbursed on rentals. Based on the EDB’s records, in 2012/13, 392 Scheme KGs were granted rental reimbursement while the others were not. KGs which were not granted rental reimbursement are however subject to the same terms and conditions of the Voucher Scheme as those granted rental reimbursement.

Overview of the Voucher Scheme and its financial features

2.27 In its 2010 review, the Education Commission considered that the KG rent reimbursement should continue to operate in accordance with the prevailing policy, which should be reviewed from time to time. Nonetheless, Audit noted that the rent reimbursement policy had not been revised after the implementation of the Voucher Scheme. Audit considers that in its forthcoming review of KG education (see para. 1.11(c)), the EDB needs to revisit the rent reimbursement practices to keep abreast of changes in recent years.

Disclosure and transparency (more details are given in PART 6)

2.28 The EDB publishes in September/October each year a KG Profile on its website to facilitate parents to make their choice of KGs. To meet the transparency requirements of the Voucher Scheme, Scheme KGs are required to disclose school fees, lunch charges (for WD classes) and reference prices for four major school items in the KG Profile.

2.29 Audit's analysis of the price information for school items and paid services provided by 121 Scheme KGs surveyed revealed that in 2011/12, 60% of the miscellaneous fees they charged were not disclosed in the 2012 KG Profile. In particular, a few common and essential items (such as charges for textbooks and workbooks and fees for tea and snacks) were not published in the KG Profile. There is a need to further enhance the disclosure and transparency requirement for the Voucher Scheme.

Declining Scheme participation (details are given in PART 7)

2.30 All eligible KGs are encouraged to participate in the Voucher Scheme which is designed to encourage wide participation so as to enhance parents' choice. When the Scheme was introduced, the EDB estimated that 80% of the KGs would join the Scheme, covering 90% of the eligible children. Audit however noted that as at September 2012 (start of 2012/13), 22 NPM local KGs did not participate in the Scheme. The remaining 104 of the 126 local KGs were PI KGs and therefore did not meet the prescribed requirements for joining the Scheme. As at September 2012, the Scheme participation rate was 77% in terms of KGs and 79% in terms of students. Another 14 Scheme KGs also informed the EDB in October 2012 that they would opt out with effect from 2013/14.

PART 3: PROFESSIONAL DEVELOPMENT OF KG PRINCIPALS AND TEACHERS

3.1 This PART examines the progress in professional development of KG teaching staff, as part of the Voucher Scheme, to enhance the quality of KG education.

Professional development of KG principals and teachers

3.2 Professional development of KG principals and teachers is important for quality KG education. One key objective of the Voucher Scheme is to raise the quality of KG education, by subsidising 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 2007/08 to 2010/11 (see para. 2.6).

3.3 Before the Voucher Scheme was introduced, the EDB had required all KGs to meet the following requirements:

- (a) they should have employed 100% QKT teachers of the required staff establishment based on a “QKT teacher to students” ratio of 1:15 (from 2004/05 onwards); and
- (b) the principals must possess the C(ECE) qualification (from 2005/06 onwards), and all teachers must possess the QKT qualification (see para. 2.2(a)).

The above teacher qualification requirements had become the terms and conditions for Scheme KGs during the five years from 2007/08 to 2011/12.

3.4 ***Policy targets for all KGs.*** In January 2007, the EDB further announced the following policy targets for the professional upgrading of KG principals and teachers for all KGs, including both Scheme KGs and non-Scheme KGs:

Professional development of KG principals and teachers

- (a) **Principals.** From 2009/10 onwards, all newly appointed principals must have a degree in Early Childhood Education (ECE) and have completed a Certification Course for KG Principals (Note 12). The EDB encouraged all serving principals to obtain a degree in ECE and expected them to complete the Certification Course by the end of 2011/12; and
- (b) **Teachers.** From 2007/08 onwards, all newly appointed teachers must possess the C(ECE) qualification or its equivalent (Note 13). All serving teachers were expected to obtain the C(ECE) qualification by the end of 2011/12.

As a condition of the Voucher Scheme, with effect from 2012/13, each Scheme KG has to maintain a sufficient number of teachers possessing the C(ECE) qualification based on the “C(ECE) teacher to students” ratio of 1:15.

3.5 The Education Commission recommended in its 2010 review on the Voucher Scheme the following:

- (a) Scheme KGs with sufficient number of teachers holding the C(ECE) qualification based on the “C(ECE) teacher to students” ratio of 1:15 might continue to employ non-C(ECE) teachers with QKT qualification, or teachers with a qualification acceptable to the Permanent Secretary of Education, to meet their individual needs; and
- (b) in the interim of two years, and under special circumstances, the EDB might consider counting those teachers pursuing the C(ECE) qualifications as C(ECE) teachers for the purpose of meeting the 1:15 “C(ECE) teacher to students” ratio requirement.

The EDB agreed to the above recommendations and the arrangements were announced in October 2011 (see para. 3.11). It was considered that the arrangements would help smoothen the transition toward the position where all teachers have C(ECE) qualification in a progressive manner.

Note 12: *The Certification Course for KG principals, comprising 120 hours spreading over 6 to 9 months, aims at strengthening the knowledge, skills and attitudes of serving KG principals and equipping aspiring KG principals with leadership skills. In 2011/12, the course fee ranged from \$12,000 to \$16,000.*

Note 13: *Equivalent qualifications may include Postgraduate Diploma in ECE and Bachelor of ECE.*

3.6 Under the Voucher Scheme, a four-year funding from 2007/08 to 2010/11 included in the voucher was provided as a training subsidy for serving KG principals and teachers in Scheme KGs to upgrade their professional qualification (see para. 2.6). Such subsidy could 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 (Note 14). As reported in Table 2 in paragraph 2.12, some \$1,000 million had been spent over the five years of 2007/08 to 2011/12 on the provision of such teacher development subsidy.

Audit findings

3.7 It is evident that KG principals and teachers had benefited from the financial assistance provided under the Voucher Scheme for their professional development. It is also evident that over the years, there had been great improvement in the professional knowledge and qualification of the KG sector. As pointed out by the Education Commission in its 2010 review report, over the past ten years, the KG teaching force had made respectable efforts in responding to the Government policies on professional upgrading and continuous professional development.

Progress of professional upgrading

3.8 Audit found that the policy targets set on KG principals and teachers of Scheme KGs (see para. 3.4) had not been entirely met by the end of 2011/12. Based on the EDB's records, as at September 2012 (start of 2012/13), the progress of Scheme KGs in meeting the policy targets was as follows:

- (a) 542 (78%) of the 698 principals serving in Scheme KGs had obtained the degree in ECE and 685 (98%) principals had completed the Certification Course, while 13 (2%) principals had yet to complete the Course; and

Note 14: *Each principal or teacher in a non-Scheme KG could claim reimbursement from the EDB of up to 50% of the fees on an approved ECE diploma or degree course, capped at \$60,000.*

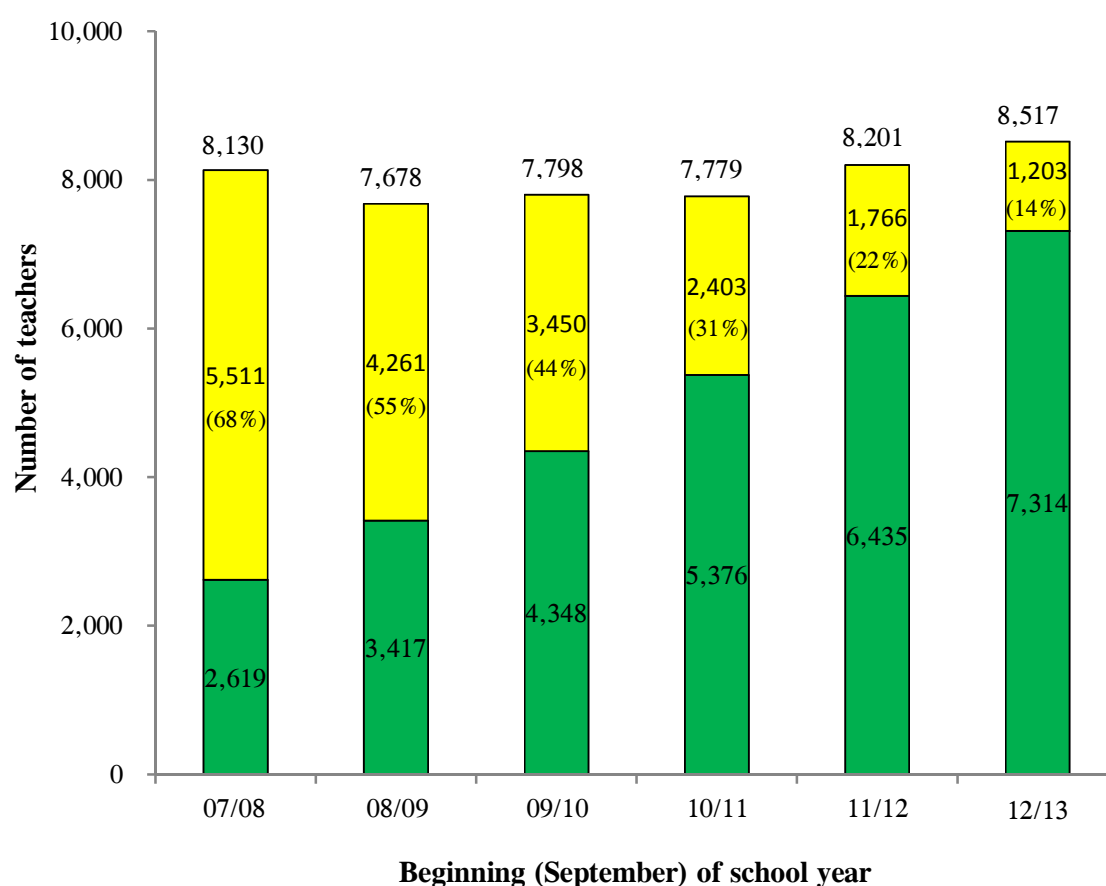
Professional development of KG principals and teachers

- (b) 1,203 (14%) of the 8,517 teachers serving in Scheme KGs had not acquired the C(ECE) or equivalent qualification (see Figure 1).

In the case of local non-Scheme KGs, 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.

Figure 1

Teachers in Scheme KGs with/without C(ECE) qualification (2007/08 to 2012/13)



Legend: ■ QKT teachers without C(ECE) or equivalent qualification
■ QKT teachers with C(ECE) or equivalent qualification

Source: EDB records

3.9 As pointed out by the Education Commission (see para. 3.7), over the past ten years, the KG teaching force had made respectable efforts in responding to the Government policies on professional development, in spite of the problems during the initial stage of implementing the Voucher Scheme. The Commission reported that:

- (a) the requirement for serving KG teachers to acquire the C(ECE) qualification before the end of 2011/12 had imposed a lot of pressure on them, as some would not be able to undergo training within the prescribed period for various reasons, including family commitment; and
- (b) there was a mismatch between the KG sector's capacity and the challenge facing it. In terms of the professional capacity, the KG sector was not yet totally ready when the Scheme was introduced. The changes associated with the Scheme, and the readiness then of the professional capacity within the KG sector to respond to such changes, might have been the sources of concerns and pressure.

3.10 To address the various concerns, the Education Commission made the following recommendations in 2010 (see item 8 of Appendix B):

- (a) Scheme KGs with sufficient number of C(ECE) teachers based on the "C(ECE) teacher to students" ratio of 1:15 might continue to employ QKT teachers or teachers with such other qualifications acceptable to the Permanent Secretary for Education;
- (b) in-service training opportunities should continue to be provided for serving teachers without C(ECE) for professional upgrading in 2012/13 and beyond; and
- (c) in the interim two years of 2012/13 and 2013/14, and under special circumstances, the EDB might consider counting those teachers pursuing the C(ECE) qualification as C(ECE) teachers for the purposes of meeting the 1:15 teacher to student ratio requirement.

3.11 The EDB agreed to the above recommendations and in October 2011 informed Scheme KGs of the revised requirement for 2012/13 (see para. 3.5).

Financial support for professional upgrading lapsed by the end of 2011/12

3.12 The provision of teacher development subsidy for Scheme KGs and the reimbursement of course fees for non-Scheme KGs, as mentioned in paragraph 3.6, had lapsed by the end of 2011/12. By the end of 2011/12, some \$1,000 million had been spent on the former and some \$19 million on the latter. Since 2012/13, teaching staff of Scheme KGs can only apply for refund of short course fees, which is limited to \$2,000 per KG and reimbursement of 50% of the course fee per teaching staff (Note 15).

3.13 As reported in paragraph 3.8(a) and (b), as at September 2012, 13 (2%) principals and 1,203 (14%) teachers serving in Scheme KGs had not completed their professional upgrading. The Education Commission had recommended in its 2010 review that the EDB should continue to provide support for the professional development of KG principals and teachers (see item 9 of Appendix B). In view of the fact that some serving KG principals and teachers have yet to complete their professional upgrading, the EDB needs to explore new ways of incentivising them to complete their professional upgrading.

Wastage and turnover rates of KG teachers

3.14 To upkeep a stable team of qualified teaching staff is important to KGs. High wastage/turnover of teachers may adversely affect the stability and quality of KG education. In a KG, there are two types of teaching staff, namely regular teachers and supply teachers. Supply teachers will stand-in when the regular teachers are on approved leave/training. KGs may also employ child-care staff to take care of younger children of 2 to 3 years old.

3.15 According to the EDB's records, the overall wastage rates of teachers of the local KG sector for the six years of 2006/07 to 2011/12 were:

Note 15: *The refund of short course fee, introduced since 2000, is applicable to all local KGs, as well as all private local primary and secondary schools.*

Professional development of KG principals and teachers

School year	Wastage rate
2006/07	11.5%
2007/08	10.6%
2008/09	8.3%
2009/10	6.8%
2010/11	6.9%
2011/12	7.1%

It can be seen that the wastage rate had dropped after the implementation of the Voucher Scheme. The EDB had informed the LegCo Finance Committee that the wastage rate was calculated on the basis of the percentage of teachers of the previous school year who did not serve/were projected not to serve in KGs in the 12-month period prior to mid-September of the respective school year.

3.16 In June 2011, a Member of the LegCo Panel who, having noted that the turnover rate of teachers in some WD KGs was as high as 40%, was concerned about the adverse impact of the high turnover rate on the quality of pre-primary education. In response to his enquiry, the EDB informed the Panel at the meeting that the overall turnover rates of teachers in local KGs in 2009/10 and 2010/11 were 6.8% and 6.9% respectively. At the same meeting, the Chairman of the Panel requested the Administration to provide information on the turnover rates of KG teachers in HD and WD KGs on a regular basis to facilitate the Panel's follow-up.

3.17 In June 2012, the EDB reported to the LegCo Panel that in 2011/12 the overall turnover/dropout rate of teachers in local KGs was 7.1%, with breakdown as follows:

Turnover/dropout rate	Percentage
• KGs with HD classes	7.1%
• KGs with WD classes	6.7%
• KGs with both HD and WD classes	7.2%

Source: EDB records

3.18 Audit however noted that the wastage rates reported by the EDB were the percentage of KG teachers who ceased working in the local KG sector. They are different from the turnover rates of KG teachers who had left one local KG and took up a teaching post in another local KG. In this connection, the EDB has explained to Audit that the methodology it adopted for computing the turnover/wastage rate of KG teachers is consistent with that adopted by the EDB for all ordinary and special schools and by international organisations (such as the Organisation for Economic Co-operation and Development). In the Controlling Officer's Report and in its replies to LegCo, the EDB had made clear that the wastage rate referred to the percentage of teachers of the previous school year who did not serve/are projected not to serve in KGs in the 12-month period prior to mid-September of the respective school years and, since the introduction of the Voucher Scheme, the wastage rate had declined from 11.5% in 2006/07 to 7.1% in 2011/12 (see para. 3.15).

3.19 Audit found that if the teacher turnover rates were calculated on the basis of individual local KGs, the rates could be considerably higher (bearing in mind that some KGs are small in size and may have employed only a few teachers). Based on the information obtained by the EDB from its annual teacher surveys, Audit calculated the turnover rate in 2010/11 of individual KGs based on the number of regular teachers who ceased to be employed in the same KG in September 2011 as compared to the position in September 2010 (beginning of the school year). The results are as follows:

- (a) the average turnover rate for KG regular teachers of individual KGs was 22% for Scheme KGs and 27% for non-Scheme KGs;
- (b) 337 (45%) Scheme KGs had a turnover rate of higher than 20% for regular teachers (see Table 3). In 26 Scheme KGs, the turnover rates were higher than 60% (see (d) below);
- (c) 105 (54%) non-Scheme KGs had a turnover rate of higher than 20% for regular teachers (see Table 3). In 13 non-Scheme KGs, the turnover rates were higher than 60%;

Table 3

Turnover rate of KG regular teachers
(2010/11)

Turnover rate of regular teachers of individual KGs (Note)	Scheme KGs		Non-Scheme KGs	
	Number	Percentage	Number	Percentage
0%	114	15%	47	24%
> 0% to 10%	100	13%	12	6%
> 10% to 20%	200	27%	31	16%
> 20% to 30%	149	20%	23	12%
> 30% to 40%	92	12%	36	18%
> 40% to 50%	47	6%	25	13%
> 50% to 60%	23	3%	8	4%
> 60% to 80%	20	3%	8	4%
> 80% to 100%	6	1%	5	3%
	337		105	
	45%		54%	
Total	751	100%	195	100%

Source: Audit analysis of EDB records

Note: The turnover rates were derived by comparing the name lists of regular KG teachers reported to the EDB by individual KGs in September of 2010 and 2011. According to the EDB, the rates might have included staff who changed from working as a regular teacher in 2010/11 to working as a supply teacher/child-care staff in 2011/12 in the same KG. However, Audit noted that such cases were not common (see (d) and (e) below).

- (d) in a few extreme cases (as shown below), 60% or more of the regular teachers in the Scheme KGs ceased to serve as regular KG teachers in 2011/12 in the same KG:

Professional development of KG principals and teachers

Scheme KG	No. of regular KG teachers employed in respective KG at the beginning of 2010/11	Outflow of regular teachers in 2010/11	
		Number	Percentage
KG 1	25	15	60%
KG 2	25	15	60%
KG 3	14	12	86%
KG 4	9	7	78%
KG 5	13	8	62%

Source: EDB records

A further analysis of the reasons for the outflow of regular teachers of the above five Scheme KGs is shown below; and

Scheme KG	To work in another KG	Leaving the KG sector	Transferred to work as supply teacher/child-care staff in same KG	Total
KG 1	5	9	1	15
KG 2	13	2	0	15
KG 3	8	4	0	12
KG 4	7	0	0	7
KG 5	7	1	0	8

Source: EDB records

- (e) Audit examined the teacher turnovers in 70 Scheme KGs in detail. These 70 Scheme KGs employed some 800 regular teachers in 2010/11. Audit found that 313 (39%) of 800 teachers had left the Scheme KGs, with 174 (56%) of these 313 teachers taking up regular teacher posts in other KGs, as detailed in Table 4.

Table 4

**The whereabouts of the 313 resigned teachers
who previously worked in 70 Scheme KGs
(2010/11)**

Particulars	Number (percentage)
<ul style="list-style-type: none"> 174 (56%) regular teachers took up regular teacher posts in other KGs (158 Scheme KGs and 16 non-Scheme KGs), including the transfer of 20 regular teachers to affiliate KGs. Of these 174 regular teachers, the majority (150) had acquired the C(ECE) or higher qualifications. 	174 (56%)
<ul style="list-style-type: none"> 84 (27%) regular teachers left the KG sector due to various reasons, including taking up employment outside the teaching profession and family commitment. 	84 (27%)
<ul style="list-style-type: none"> 35 (11%) regular teachers took up child-care staff posts (30 in Scheme KGs and 5 in non-Scheme KGs) 	35 (11%)
<ul style="list-style-type: none"> 20 (6%) regular teachers took up supply teacher posts (8 in the same Scheme KG and 12 in a different Scheme KG) 	20 (6%)
Total	313 (100%)

Source: Audit analysis of EDB records

3.20 Audit noted that with the implementation of the Voucher Scheme, the overall wastage rate for KG teachers had dropped (see para. 3.15), but the average teacher turnover rate for Scheme KGs (by individual KGs) was 22% in 2010/11 (see para. 3.19(a)). It is understood that the KG sector is privately run, the operation of Scheme KGs is not subject to the EDB's elaborate regulatory controls, and teachers' turnovers could also have arisen due to personal decisions and not relating to school-based issues. Nonetheless, Audit considers that the overall situation warrants the EDB's attention. In this connection, the EDB has informed Audit that:

- (a) it has been closely monitoring the demand and supply of KG teachers at the territory level, including those leaving the KG sector. From the policy perspective, healthy staff turnover among KGs facilitates cross-fertilisation of expertise, helps induce KGs to enhance the terms and conditions of teachers' service with a view to attracting and retaining quality teachers, and as a consequence, helps enable the healthy development of KG sector as a whole; and
- (b) apart from monopolistic or oligopolistic sectors, it is not the normal public policy to monitor/intervene into the staff turnover rate of individual entities in the private sector. The focus should be at the aggregate, sector level. For individual KGs with relatively high turnover, there may be many contributing factors relating to human resources management, which may not be appropriate for the EDB to intervene.

3.21 As high teacher turnover may affect the quality and stability of Scheme KGs (e.g. the attainment of the "C(ECE) teacher to students" ratio of 1:15), Audit considers that the EDB, which oversees the sector, needs to monitor the trend, find out the underlying reasons for the high turnover and ascertain any systemic issues. The review findings by the Education Commission may shed some light on the possible reasons for the high teacher turnover, as explained below.

3.22 The Education Commission pointed out in its 2010 review report that:

- (a) under the previous KCSS, to encourage KGs to employ and retain trained teachers, the Government provided financial subsidy to KGs to partly meet the salary costs of teachers so as to reduce the pressure on school fee increase. At that time, KGs were required to pay their teachers according to a recommended salary scale. The pay scale for QKT teachers in 2006/07 ranged from \$12,000 to \$22,000 per month. Such a normative salary scale was abolished since the introduction of the Voucher Scheme;
- (b) Scheme KGs had full discretion in determining teachers' salaries and had been positively exercising the flexibility in offering competitive pay and awarding increments to teachers. According to the data collected from KGs in a questionnaire survey conducted by the EDB, the average monthly salaries of KG teachers (excluding principals) teaching HD and WD classes in local KGs were \$9,800 and \$16,300 respectively in 2009/10;

Professional development of KG principals and teachers

- (c) many KG teachers and principals expressed the view that the Government's decision to stop issuing a recommended salary scale (see (a) above) pursuant to the Scheme had been perceived as giving no recognition and due respect to the teaching force. The teachers' stability and morale had been negatively affected; and
- (d) some KG teachers and principals claimed that the lack of job security had also resulted in higher wastage of teachers which would, in turn, adversely affect the quality of pre-primary education. They considered that a salary scale commensurate with teachers' qualifications and experience should be provided by the EDB.

In its review report, the Education Commission recommended 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 (see item 10 of Appendix B).

PART 4: QUALITY ASSURANCE MECHANISM

4.1 This PART examines the effectiveness of the quality assurance mechanism, as part of the Voucher Scheme, in enhancing the quality of KG education.

Quality assurance mechanism under the Voucher Scheme

4.2 To enhance the quality of KG education, the EDB has required all Scheme KGs to be subject to a quality assurance mechanism (see para. 2.3(d)). Under the mechanism, Scheme KGs conduct self-evaluations and the EDB conducts QRs on the KGs. Starting from 2012/13, only Scheme KGs which meet the EDB's QR standards are allowed to remain in the Voucher Scheme.

4.3 ***Self-evaluations conducted by Scheme KGs.*** To fulfil the requirement for self-evaluations, Scheme KGs are required to prepare before 1 September (start of each school year) two documents, namely the School Report and the School Plan:

- (a) ***School Report.*** The KG should set out in the Report a broad view of the KG's performance in 12 areas and give a reflective account of the students' development in the preceding year, with a focus on the achievements made and follow-up actions set out for improvement; and
- (b) ***School Plan.*** In the Plan, the KG should provide details on the strategic planning for school improvement in the coming year, including tasks listed in order of priority, expected outcomes, success criteria, method of evaluation, person in charge, resources required and the time frame for action on each area of concern.

After completing the first five-year cycle of QRs at the end of 2011/12, the EDB developed an enhanced school report template for use by all KGs from 2012/13. The enhanced template integrated the School Report and School Plan to help schools record their self-evaluation results and formulate the school plan.

4.4 ***QRs conducted by the EDB.*** The EDB conducts QRs periodically to validate Scheme KGs' self-evaluation results. In a QR, the EDB inspectors verify the KGs' self-evaluation results to see how they help achieve sustainable improvement. The inspectors also provide objective views on the KG's performance. Table 5 shows in brief the EDB's QR procedures.

Table 5

A summary of the QR procedures

- | |
|---|
| <p>(a) The Scheme KG submits the following information/documents to the EDB:</p> <ul style="list-style-type: none">• result of its self-evaluations of the last school year;• school basic information;• teacher information;• results of stakeholders survey (parents, teachers and non-teaching staff);• annual curriculum plan; and• time tables of individual KG classes. <p>(b) The EDB conducts a pre-visit to:</p> <ul style="list-style-type: none">• explain workflow of the QR; and• conducts informal meeting with the KG head to understand the KG's self-evaluation findings (starting from 2012/13, the half-day pre-visit is combined with the on-site review). <p>(c) The EDB conducts on-site review to:</p> <ul style="list-style-type: none">• validate the self-evaluation findings;• understand the daily routine of the KG;• observe learning activities;• interview students, teachers, parents and school supervisors; and• scrutinise documents and children's work. <p>(d) Four weeks after the on-site visit, the EDB issues the draft QR report to the KG for comments and a set of post-QR questionnaire for collecting teaching staff's feedback.</p> <p>(e) Ten weeks after the on-site visit, the EDB uploads the final QR report onto the EDB's website in the case of a Scheme KG which has been assessed as meeting the standards, or issues an advisory letter to the KG which has been assessed as not meeting the standards.</p> <p>(f) If necessary, the EDB conducts a follow-up QR. All follow-up QR reports will also be uploaded onto the EDB website.</p> |
|---|

Source: EDB records

Quality assurance mechanism

The EDB's QR normally takes three to four months to complete. The QR report, which is uploaded by the EDB onto its website (see (e) in Table 5), is also hyperlinked to the KG Profile for parents' easy reference.

4.5 The EDB's QR provides a useful tool to help enhance the quality of KG education. However, in its 2010 review, the Education Commission reported that many KGs considered the quality assurance mechanism as the source of pressure on the KGs and teachers, particularly as the KGs' eligibility to join the Voucher Scheme depended on the outcome of the QRs. They expressed the view that the EDB should provide more post-QR support to them. Taking into account the Education Commission's recommendation on the need to involve professionals to fine-tune the quality assurance mechanism (see item 5 of Appendix B), the EDB enhanced the mechanism in 2011/12 by making the QRs more improvement-oriented. For the school self-evaluation, a revised template integrating the School Report and School Plan was introduced to facilitate Scheme KGs to record their self-evaluation results and formulate the school development plans from 2012/13 onwards (see para. 4.3). The EDB also encouraged KGs to integrate self-evaluation into the school's daily practices and to make full use of the evidence readily available in school for self-evaluation to avoid unnecessary documentation and preparation.

Audit findings

Performance indicators to evaluate services

4.6 Scheme KGs are required to conduct the self-evaluations based on a set of 32 performance indicators. These 32 performance indicators were formulated in 2000 and revised between 2001 to 2003 to provide a common platform to evaluate the services (see Figure 2). To familiarise KGs with the school self-evaluation mechanism, including the performance indicators, the EDB conducts workshops and training sessions for KG principals and teachers.

Figure 2

Performance indicators for pre-primary education



Source: EDB records

Quality assurance mechanism

4.7 Despite the EDB's advice against over-preparation and excessive documentation, the School Reports and School Plans produced by some Scheme KGs together contained 25 to 50 pages. As reported by the Education Commission in its 2010 review, Scheme KG principals and teachers had the concerns that the Voucher Scheme had imposed heavy administrative workload on them. There was also a concern that the QRs conducted by the EDB placed much pressure on the Scheme KGs, principals and teachers, as failure in passing the QR could result in the KGs' disqualification from the Scheme.

4.8 In mid-2012, 19 of the 30 Scheme KGs interviewed by Audit (see Appendix A) considered that there were too many performance indicators, with some of them quite confusing. Some of their comments are shown below.

- There were too many performance indicators. They were too meticulous.
- Sometimes, some of the performance indicators appeared similar to each other. It was difficult for KG teachers to understand the differences between them.
- The performance indicators should be applied flexibly in accordance with the size of the KGs.

4.9 Audit understands that the 32 performance indicators serve as a tool to help Scheme KGs conduct their self-evaluations. According to the EDB, such an elaborated set of performance indicators was essential particularly in the initial stage of developing a self-evaluation practice in Scheme KGs. Given that some of the Scheme KGs have found it difficult to conduct self-evaluations using the 32 performance indicators, the EDB may wish to continue providing appropriate training and support to them, and keep on reminding them not to prepare excessive documentation. The EDB may also consider whether, in future, some of the 32 performance indicators can be consolidated in a manner similar to the primary and secondary schools when the EDB reduced in 2008/09 the number of performance indicators applicable to them from 29 to 23.

Disseminating self-evaluation results

4.10 According to the EDB, the impetus for continuous improvement is developed within KGs through the self-evaluation. The self-evaluation is an important step towards self-improvement and is an integral and essential part of the quality assurance mechanism. While the Education Commission had recognised that the Voucher Scheme had made a significant achievement by requiring all Scheme KGs to conduct self-evaluations, the Commission had also pointed out that the KG workforce had found it stressful to meet the quality standards.

4.11 As set out in EDB Circular No. 15/2012, Scheme KGs are strongly encouraged to make their School Reports accessible to stakeholders using different means, such as the school websites and the KG Profile. Audit however noted that Scheme KGs had seldom uploaded their School Reports or School Plans onto their school websites. The Reports and/or Plans were also not found in the KG Profile on the EDB's website. Audit interviewed five Scheme KGs to find out how they disseminated the self-evaluation results to the parents. They informed Audit that, instead of issuing the School Reports or School Plans to the parents, they informed parents of their major developments and plans through school newsletters or announcements on Parents' Day.

4.12 Given that many of the Scheme KGs are small in size, they may not be so experienced in conducting self-evaluations and may not have the technical knowledge and skills in uploading their self-evaluation results onto their school websites. The EDB needs to provide more support and assistance to help Scheme KGs conduct their self-evaluations and disseminate the results to the parents.

4.13 In March 2013, the EDB informed Audit that it would continue to provide appropriate training and support to help Scheme KGs better understand the use of performance indicators as a self-evaluation tool and disseminate the self-evaluation results to parents. The EDB would also continue to remind Scheme KGs to disseminate their School Reports and School Plans to stakeholders through various means, including uploading them onto the school websites.

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

4.14 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 finalised (Note 16).

4.15 In March 2013, the EDB informed Audit that the consultancy study had been completed in 2012 and it was in the process of finalising the consultancy report. In the light of the recommendations of the consultancy study, the EDB had already introduced improvement measures in the second five-year cycle of QRs starting from 2012/13, including the following:

- (a) adjusting the time spent in Scheme KGs for on-site QR so as to further enhance the communication between the review teams and KGs;
- (b) fine-tuning the School Report template to facilitate KGs to conduct the self-evaluations (see para. 4.5). The EDB has allowed more flexibility for Scheme KGs when reviewing their performance holistically and thus facilitates them to conduct comprehensive review as well as focused evaluation according to the KGs' specific situation; and
- (c) further enhancing the QR Information System of KGs with an analysis tool that facilitates their conduct of stakeholder surveys. This reduces the Scheme KGs' administrative work involved in collecting, compiling and analysing the views of teachers, non-teaching staff and parents.

Audit welcomes the EDB's improvement measures, and considers that the EDB needs to expedite the completion of the consultancy report.

Note 16: *The EDB set up a committee in July 2010 to monitor the progress of the consultancy study. The committee was chaired by a Principal Assistant Secretary for Education. Up to December 2012, the committee had held seven meetings.*

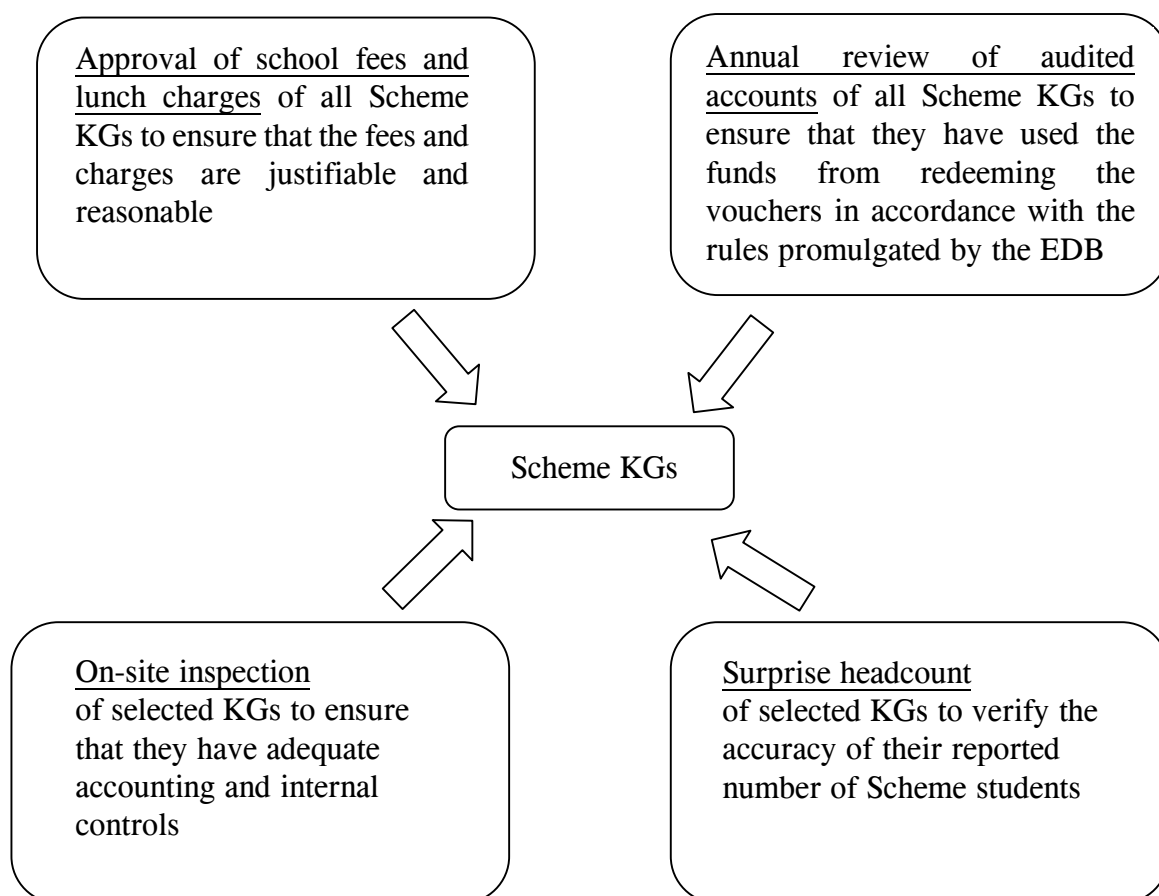
PART 5: REGULATORY MEASURES

5.1 This PART examines the EDB's measures in regulating the financial operation of Scheme KGs.

5.2 Under the Voucher Scheme, government funds are not paid as subventions to the KGs but are provided as direct subsidy to parents. Therefore, Scheme KGs, operated by the private sector, are not considered as subvented organisations and the standard regulatory requirements for such organisations do not apply to Scheme KGs. However, with the significant investment in the Scheme, the EDB considers that regulatory controls are required to forestall abuse and to ensure that KG expenditure is incurred to support teaching and learning activities. Hence, the EDB has instituted a package of measures to regulate the financial operation of Scheme KGs, as shown in Figure 3. The EDB may exclude a KG from the Voucher Scheme if the KG does not meet the quality standards or has a track record of irregularities.

Figure 3

Regulatory measures on Scheme KGs



Regulatory measures on Scheme KGs

5.3 *Approval of school fees and lunch charges.* Under the Education Ordinance and Education Regulations, all KGs (including Scheme KGs) have to submit applications, in relation to any revisions to school fees and lunch charges, for the EDB's assessment and approval (Note 17). The EDB has maintained a stringent fee/charge approval mechanism under which it will critically review the fee/charge revision applications to ensure that the revisions are properly justified and within reasonable limits.

5.4 To justify school fee revisions, the KGs are required to submit to the EDB statements of estimated income and expenditure, and schedules of major expenditure items (such as rentals of school premises and additions of fixed assets). According to the EDB guidelines issued to KGs, income from school fees should be devoted to supporting teaching and learning activities, the operation of the KGs and maintenance of the standard of education service (as detailed at Appendix C). For revisions to lunch charges in the case of WD classes, KGs may be required to provide menus to the EDB to justify the proposed increase.

5.5 When considering KGs' applications for revision of school fees, the EDB would examine, among other things, the magnitude of the proposed increase, the accumulated surplus held by the KG and the KG's estimated operating income (including school fees, operating and other income) and operating expenditure in the following school year. It may exclude certain expenditure items from consideration or make adjustments to them. Such expenditure items include payments not directly related to teaching and learning activities or school operation. Examples included:

- Excessive management fee paid to the sponsoring body in relation to payment for non-teaching staff (such as school counsellor and religious personnel)
- Royalty payments for the use of trademark
- Staff meal allowances
- Staff welfare and entertainment

Note 17: *A fee certificate (for the approved school fee and lunch charge, if any) is issued to the KG concerned, which is required to exhibit it at a prominent place in the school premises under the Education Regulations.*

5.6 *Annual review of audited accounts.* All Scheme KGs are required to submit their annual audited accounts together with the school supervisor's certificate (confirming that information given in the accounts are true and correct) and the KG auditor's report to the EDB each year. The EDB would examine whether the Scheme KGs have complied with the requirements laid down by the EDB (including the terms and conditions of the Scheme, and the principles on trading activities — see para. 5.18). The EDB would summarise non-compliances detected in a review report, and issue advisory letters requesting the KGs concerned to rectify the non-compliances. In relation to the review of the audited accounts for the three years of 2007/08 to 2009/10, the EDB had issued, on average, some 200 advisory letters each year. There was a drop in the number of KGs with non-compliances identified in their audited accounts of 2010/11 and as a result, the number of advisory letters issued had dropped to some 140.

5.7 *On-site inspection.* The EDB conducts on-site inspections of selected Scheme KGs to ensure that they have effective and adequate accounting and internal controls, and comply with the EDB's requirements. Management letters would be issued to Scheme KGs identified with non-compliance. Over the period February 2009 to December 2012, the EDB had conducted some 240 on-site inspections (i.e. one-third of the Scheme KGs had been inspected) and, on average, issued some 60 management letters a year.

5.8 *Surprise headcount inspection.* The EDB also conducts surprise headcount inspection of selected Scheme KGs to verify the accuracy of their reported number of Scheme students enrolled. Advisory letters would be issued to Scheme KGs with inadequacies identified in their controls of voucher redemption. These Scheme KGs would be selected for headcount inspection again in the following year. In the five years of 2007/08 to 2011/12, the EDB conducted some 550 inspections (i.e. about two-third of the Scheme KGs had been inspected) and no significant irregularities were identified.

Audit findings

5.9 The EDB has instituted various regulatory controls over the financial operation of Scheme KGs. Audit has found that the following areas merit the EDB's attention:

Regulatory measures

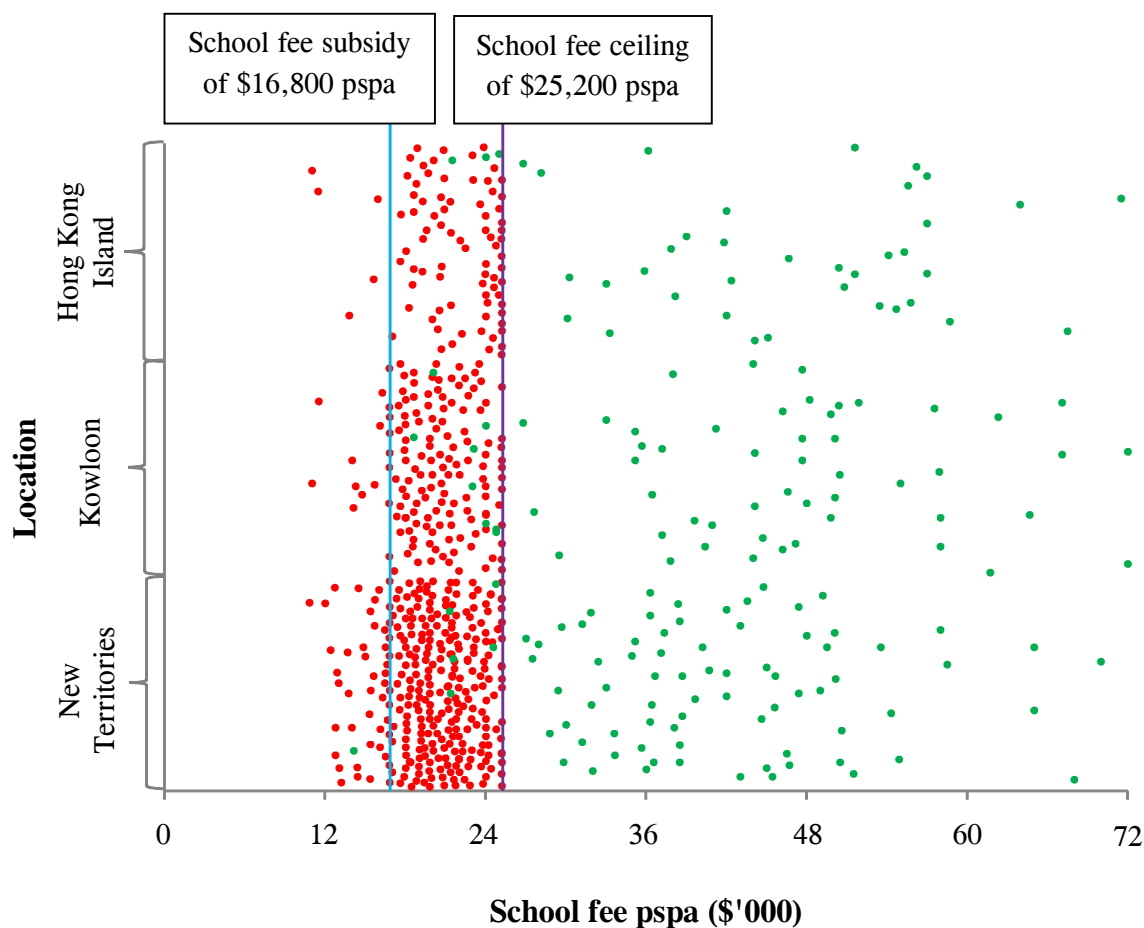
- (a) school fees in the majority of Scheme KGs are approaching the fee ceilings set by the EDB (paras. 5.10 to 5.15);
- (b) EDB's regulation of Scheme KGs' income from trading activities (paras. 5.16 to 5.22);
- (c) miscellaneous fees charged by Scheme KGs, but reported as "other operating income" in their audited accounts (paras. 5.23 to 5.28);
- (d) some Scheme KGs are receiving rental reimbursement from the EDB (paras. 5.29 to 5.34);
- (e) significant rental payments and their disclosure by Scheme KGs (paras. 5.35 to 5.39); and
- (f) timely completion of annual reviews of audited accounts (paras. 5.40 to 5.43).

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

5.10 As reported in paragraphs 2.7 and 5.3, any revisions to school fees have to be approved by the EDB and Scheme KGs are not allowed to charge school fees exceeding the ceilings set by the EDB (\$25,200 pspa for a HD place and \$50,400 pspa for a WD place in 2012/13). Figure 4 however shows that school fees for a HD place in the majority of the Scheme KGs are approaching the school fee ceiling and there is also a wide gap between the school fees of Scheme KGs and non-Scheme KGs.

Figure 4

**School fees for a HD place in Scheme and non-Scheme KGs
(2012/13 — Note 1)**



Legend: • One red dot represents one Scheme KG
 • One green dot represents one non-Scheme KG (Note 2)

Source: *EDB records*

Note 1: *In 2012/13, some 88,000 (68%) of the 129,000 Scheme KG students are studying in HD classes.*

Note 2: *34 HD non-Scheme KGs with school fees ranging from \$72,710 to \$117,000 pspa are not shown in this figure.*

5.11 Although the Voucher Scheme has provided for revising the school fee ceilings with CCPI since 2012/13 (see para. 2.11(b)(i)), Audit's analysis however revealed that in 2012/13:

Regulatory measures

- Of 516 (395 + 121) Scheme KGs with HD classes (see para. 2.14), 126 (24%) are charging school fees for a HD place at a level of over \$23,000 pspa (i.e. a level approaching the ceiling of \$25,200 pspa).
- Of these 126 Scheme KGs, 26 are charging school fees for a HD place at the fee ceiling of \$25,200 pspa.

With 24% of the Scheme KGs 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 is limited. Audit noted that among the 26 Scheme KGs with school fees for a HD place set at the fee ceiling, 12 reported to have incurred operating deficits in their 2010/11 audited accounts (audited accounts for later years not yet available in the EDB's records).

5.12 According to the EDB's records, in 2010/11, 440 (59%) Scheme KGs earned net surplus (Note 18), some 280 (37%) incurred net deficits and some 30 (4%) with a breakeven result. Among the Scheme KGs, five earned net surplus with a surplus margin of over 30% of their total income, each ranging from \$0.5 million to \$5.6 million. Some 300 Scheme KGs were operating at a surplus margin of less than 10%. Twenty of those Scheme KGs operating at a loss incurred net deficits of \$1 million to \$2 million each.

5.13 Although the Voucher Scheme has provided for annual revision of the school fee ceilings with reference to the CCPI, no mechanism is available under the Scheme for reviewing the ceiling level to take account of other changes in the KG sector which may affect the Scheme KGs' operating costs (e.g. increases in KG teachers' salaries and rentals for KG premises). In fact, among the 14 KGs which had opted out of the Scheme in 2012/13 (see para. 7.6), Audit noted that five of them had immediately revised upwards their school fees for a HD place beyond the ceiling of

Note 18: *Net surplus/deficits refer to a Scheme KG's surplus/deficits from KG operation plus its profits/loss from trading activities (i.e. sale of optional school items and provision of paid services).*

\$25,200 pspa. Two of the five KGs had revised their school fees pspa from \$24,000 (fee ceiling for Scheme KGs in 2011/12) to \$38,000 in 2012/13.

5.14 Audit considers that in its forthcoming review of KG education, the EDB needs to devise, as appropriate, 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.

5.15 In March 2013, the EDB informed Audit that the annual adjustment of the fee ceiling according to the CCPI was the existing policy mandate as endorsed by the LegCo Finance Committee. That notwithstanding, the EDB indicated that the issues would be considered by the Committee on Free KG Education in its forthcoming study.

EDB's regulation of Scheme KGs' income from trading activities

5.16 ***Income of Scheme KGs.*** The primary sources of income of Scheme KGs include:

- School fee income
- Income from lunch charges (for WD classes)
- Other operating income (see para. 5.17)
- Income generated from trading activities (see para. 5.18)

5.17 Other operating income of a Scheme KG may include the Government's reimbursement of rentals, rates and government rents (see paras. 5.29 to 5.34), miscellaneous fee income and donations/subsidies from sponsoring bodies (Note 19). Audit found that Scheme KGs generally reported their miscellaneous fee income under both "income from trading activities" and "other operating income", which are examined in detail in paragraphs 5.18 to 5.28.

Note 19: *In 2010/11, 171 Scheme KGs received \$12.3 million of donations/subsidies from their sponsoring bodies.*

Regulatory measures

5.18 *Miscellaneous fee income from trading activities.* For miscellaneous fees charged by Scheme KGs for the sale of optional school items and provision of paid services, prior approval from the EDB is not required. Though the EDB would not take into account such fee income in considering the Scheme KGs' school fee revision applications, the KGs are required to plough back the surplus from the trading activities to finance the KG operation. In addition, to safeguard the interests of the parents and students, the EDB has required all KGs (including Scheme KGs) to comply with the following principles on trading activities stipulated in its administration directives.

Principles on trading activities

- No purchase of school items or acceptance of paid services should be compulsory, and parents should be informed accordingly.
- Items and paid services should be sold or provided at the minimum feasible price and should not be above the market price.
- Any offers of donation or advantage from trading operator/suppliers should only be accepted in accordance with EDB circulars.
- No profit should be generated from the sale of textbooks.
- Profit from the sale of school items (other than textbooks) and the provision of services should be limited to 15% of the cost price.
- Proper books of accounts should be kept which must reflect all its trading activities.

5.19 To regulate miscellaneous fee income, the EDB has further instituted the following measures:

- For miscellaneous fees charged by KGs (including Scheme KGs) and reported as “income from trading activities” in their audited accounts, the EDB has required each KG to report in a “statement of profit/loss from trading activities” attached to the audited accounts, showing the income, expenses and profit margins of individual trading activities. As such, excessive profits (i.e. any profit for textbooks and/or profit exceeding 15% for school items other than textbooks) can readily be identified.
- The EDB draws the Scheme KGs’ attention to the need to observe the profit limits and to observe relevant circulars through reminders, information on the EDB’s website and annual briefings on KG financial management.
- Proper financial management is one of the criteria for a KG to be eligible for joining/staying in the Voucher Scheme. When processing KGs’ applications for joining/staying in the Scheme, identified irregularities in their trading operation will be, among others, examined. The KGs concerned are required to confirm that the irregularities will be rectified to the satisfaction of the EDB before their applications are processed.

5.20 *Non-compliances identified in EDB’s review of audited accounts.* Notwithstanding that guidelines have been issued and various measures have been taken, Audit noted that the EDB still identified in its reviews of the audited accounts quite frequent occasions of Scheme KGs not complying with the principles on trading activities for the sale of optional school items and services, as follows:

- In 2009/10, the EDB found that profits from trading activities of 177 Scheme KGs had exceeded the EDB’s prescribed limits. Nonetheless, an improvement was noted that in 2010/11, only some 120 (16%) Scheme KGs had exceeded the limits.
- Owing to the EDB’s delay in completing the annual reviews of the Scheme KGs’ audited accounts (see para. 5.40), the EDB did not issue advisory letters to them until June 2011 in relation to the non-compliances identified in the 2007/08 and 2008/09 audited accounts, and until June 2012 in relation to non-compliances identified in the 2009/10 audited accounts, requesting the KGs concerned to rectify the situation. An improvement was noted in that the EDB had issued by January 2013 all advisory letters on non-compliances identified in the 2010/11 audited accounts.

Regulatory measures

5.21 *Non-compliances identified in on-site inspections.* As mentioned in paragraph 5.7, the EDB had conducted on-site inspections on some 240 Scheme KGs. It had identified from the inspections 78 (33%) Scheme KGs with excessive profits made from their trading activities. The EDB had issued management letters requesting the Scheme KGs to rectify the situation. According to the EDB, as reflected from the Scheme KGs' 2010/11 audited accounts, 18 Scheme KGs had no longer made excessive trading profits and 11 had reduced theirs. The EDB had yet to check whether the remaining 49 Scheme KGs had taken corrective actions in their 2011/12 audited accounts (which were not yet available by early 2013).

5.22 Before joining the Voucher Scheme, many KGs were not required to submit annual audited accounts and "statements of profit/loss from trading activities" to the EDB. Therefore, the fact that some of the Scheme KGs have not been able to comply with the EDB's principles on trading activities in the first few years after the implementation of the Scheme is understandable. The EDB should consider setting out clearer guidelines on the types of trading activities that are subject to the EDB's administrative directives, and explore ways to strengthen the controls over excessive profits. The EDB also needs to remind Scheme KGs of the need to comply with the EDB's administrative directives on trading activities.

Miscellaneous fees charged by Scheme KGs, but reported as "other operating income" in their audited accounts

5.23 *Audit survey.* According to the information collected by Audit from 121 Scheme KGs in a survey conducted in late 2012 on their miscellaneous fees charged in 2011/12 (see Appendix A), all of them charged more than four types of miscellaneous fees. On average, each Scheme KG charged miscellaneous fees of some \$3,000 pspa. Typical miscellaneous fees charged for a HD place in a Scheme KG are shown below:

Miscellaneous fees charged by one Scheme KG surveyed by Audit (2011/12)	
Fee item	Pspa (\$)
• Textbooks	920
• Summer uniform	360
• Winter uniform	490
• School bag	90
• Learning materials	480
• Workbooks	560
• Tea and snacks	900
• Sundries	130
Total	<u>3,930</u>

5.24 Audit scrutiny of the 2010/11 audited accounts of the 121 Scheme KGs surveyed further revealed that 56 of them had miscellaneous fee income reported under both “income from trading activities” and “other operating income” in their accounts, whereas 64 of them had their miscellaneous fee income reported under “other operating income” only. The remaining one Scheme KG had its miscellaneous fee income reported only under “income from trading activities”.

5.25 *Audit examination of audited accounts.* Audit examination of the 2010/11 audited accounts of 100 randomly-selected Scheme KGs further revealed that:

- (a) Scheme KGs had commonly charged miscellaneous fees (other than school fees and lunch charges) and had reported such miscellaneous fees as “other operating income” and/or “income from trading activities” in their accounts. Examples of such miscellaneous fees they charged are shown below;

**Miscellaneous fee income
in Scheme KGs' audited accounts
(2010/11)**

Reported as “other operating income”	Reported as “income from trading activities”
<ul style="list-style-type: none"> • Application fee • Air-conditioning fee • Graduation ceremony fee • Birthday party fee • Registration fee • Student portfolio • Stationery • Student activity income • School bus fare • Snack fee 	<ul style="list-style-type: none"> • Sale of textbooks • Sale of workbooks • Teas and snacks • Learning materials • School bus fares • Sale of school uniforms • Sale of school bags • Special course fees

Source: EDB records of Scheme KGs' audited accounts

- (b) 64 (64%) of the 100 Scheme KGs reported to have collected miscellaneous fee income of \$22 million in total under “other operating income” in their audited accounts; and
- (c) in some cases, the miscellaneous fee income collected by individual Scheme KGs was as high as 24% to 44% of their school fee income. A few examples, extracted from their 2010/11 audited accounts, are shown below:

Scheme KG	Income from school fee (a) (\$'000)	Income from lunch charges (b) (\$'000)	Miscellaneous fee income (\$'000)			Miscellaneous fee income in (d) as a percentage of school fee income in (a) $(e) = \frac{(d)}{(a)} \times 100\%$
			Reported as			
			“other operating income” (b)	“income from trading activities” (c)	Total (d) = (b) + (c)	
<i>HD</i>						
KG 11	2,266	—	690	251	941	42 %
KG 12	1,367	—	499	103	602	44 %
KG 13	5,041	—	948	242	1,190 (see para. 5.26)	24 %
<i>HD and WD</i>						
KG 14	3,781	166	944	414	1,358	36 %
KG 15	4,824	204	648	562	1,210	25 %

Regulatory measures

5.26 For illustration, an analysis of the miscellaneous fee income (\$1.19 million) for KG 13 is shown below:

Miscellaneous fee income collected by KG 13 (2010/11)

Reported as “other operating income”		Reported as “income from trading activities”	
	(\$' 000)		(\$'000)
• Student celebration function income	577	• Textbooks	210
• Programme income	355	• Exercise books	12
• Enrolment fees	16	• School uniform	20
Total	948	Total	242

More examples of miscellaneous fee income collected by Scheme KGs are shown at Appendix D.

5.27 Miscellaneous fee income reported as “other operating income” is taken into account when the EDB considered school fee revision applications submitted by the Scheme KGs. However, miscellaneous fee income reported as “other operating income” may give an impression that they are related to regular teaching and learning activities which are participated by all students. Audit is concerned that such fees should have already been covered in the school fees. Besides, miscellaneous fee income grouped as “other operating income” in audited accounts may bypass the requirement for reporting in the “statements of profit/loss from trading activities” submitted with the audited accounts to the EDB (see para. 5.19). They may therefore elude the specified profit limits (see para. 5.18) and the EDB’s examination for justification and reasonableness.

5.28 The EDB informed Audit in March 2013 that:

- (a) most of the school items under “other operating income” quoted in paragraphs 5.25(a) and 5.26 should either be covered by the school fees or be treated as “income from trading activities”. Components/items which should be covered by school fees have been clearly stipulated in the “Guiding Principles on Scope of Expenditure” posted on the EDB website (see Appendix C). The EDB has also reminded KGs of the list of components of school fees in its annual call circular for fee revision applications;
- (b) it is worth noting that among the miscellaneous fee income quoted as “other operating income”, application fee and registration fee are regulated under EDB Circular No. 12/2005, which stipulates the approved ceilings for these fees. The ceilings would serve as the written permission of the EDB. Notwithstanding that, the EDB will review the guidelines for the collection of school fees, application fee, registration fee and conduct of trading activities, and remind Scheme KGs to comply with the respective rules and regulations; and
- (c) the EDB will continue to follow up closely with the Scheme KGs concerned for any non-compliance cases.

Some Scheme KGs are receiving rental reimbursement from the EDB

5.29 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. Rentals for school premises are very often one of the Scheme KGs’ major expenditure items. It has long (well before the Voucher Scheme was introduced) been a practice of the EDB to provide financial assistance to NPM KGs in the form of reimbursement of rentals, rates and government rents under a reimbursement scheme (see Appendix E for details). All the rental reimbursements provided to KGs are based on either the assessments of the Rating and Valuation Department (RVD), or the actual rentals charged by the Housing Authority or the Hong Kong Housing Society.

Regulatory measures

5.30 KGs' applications for joining the KG rent reimbursement scheme are vetted by the EDB using a set of criteria (Note 20). When a KG applies for rental reimbursement for the first time, it has to agree to reduce the school fees by an amount commensurate with the rental reimbursement. To ensure proper use of public funds, the EDB also has a monitoring mechanism in place to review every two years the eligibility of all KGs which were receiving rental reimbursement.

5.31 When the Voucher Scheme was introduced in 2007/08, the EDB decided that the KG rent reimbursement scheme should continue to operate in accordance with the prevailing policy, which would be reviewed from time to time. In its 2010 review, the Education Commission considered that the administrative complications outweighed the advantage of subsuming the reimbursement elements under the Voucher Scheme, and recommended that the reimbursement policy and arrangement should continue, with the prevailing policy to be reviewed from time to time. Thus, the KG rent reimbursement scheme has remained outside the ambit of the Voucher Scheme, but is another form of subsidy to KGs (including Scheme KGs). However, Audit found that the KG rent reimbursement policy had not been revised in recent years.

5.32 Each year, the Government spent some \$200 million on reimbursement to KGs of rentals, rates and government rents, with some 85% spent on rentals. In this review, Audit has the following observations:

- (a) the expenditure on rentals, rates and government rents varied widely among the 735 Scheme KGs. Based on the EDB's records, in 2012/13, 392 Scheme KGs are granted rental reimbursement, 601 for reimbursement of rates and 269 for reimbursement of government rents. For the remaining 343 (735 less 392) Scheme KGs, whilst some are paying nil or low rentals (e.g. when the school premises are provided by land grants from the Government, or are provided free or on nominal rentals by the sponsoring bodies), some are paying high market rentals;

Note 20: *The EDB's vetting committee, chaired by a Principal Education Officer, considers each new application on its own merits based on criteria including the operating and curriculum standard of the KG, and the standard of the school premises (more details are at Appendix E).*

- (b) according to the approving criteria for rental reimbursement, all new applications will be considered only when there is a shortage of KG places in the district of the relevant KGs. However, once reimbursement is granted, shortage of KG places is not a factor affecting the KGs' eligibility for continuing the reimbursement in subsequent years. In these circumstances, KGs continue to receive reimbursement even though there is no longer a shortage of KG places in their districts. Audit examination of the EDB's record for the period September 2007 to January 2013 revealed that there was no shortage of KG places in any districts in Hong Kong. In the period, the EDB rejected 27 new applications. Audit reviewed 8 of them and found that 7 applications were rejected because there was no shortage of KG places in the districts concerned. The remaining one application was rejected because it did not meet other requirements;
- (c) among the 392 Scheme KGs which have been approved for rental reimbursement in 2012/13 (see (a) above), 41 Scheme KGs are reimbursed with rental amounts of \$50,000 a month or more, with the highest being \$348,000 a month (Note 21). Nine of the 41 Scheme KGs are paying rentals of \$16.2 million a year in total (with each ranging from \$60,000 to \$348,000 a month) to their sponsoring bodies as landlords of the KG premises; and
- (d) Scheme KGs not receiving rental reimbursement are subject to the same terms and conditions under the Voucher Scheme as other Scheme KGs receiving rental reimbursement. Indeed, some Scheme KGs receiving rental reimbursement (which still remains an important subsidy to them) are charging similar levels of school fees as Scheme KGs in the same districts that did not receive rental reimbursement.

5.33 As mentioned in paragraph 5.31, the EDB has undertaken to review the KG rent reimbursement policy from time to time, and the Education Commission has also considered that the rent reimbursement policy should be reviewed. It appears opportune for the EDB to review the KG rental reimbursement practices in its forthcoming review of KG education, and revise them if necessary, to ensure a more consistent application.

Note 21: *Based on the EDB's records, in 2010/11, 30 of the 41 Scheme KGs earned net surplus (with 6 over \$1 million), and the remaining 11 Scheme KGs incurred net deficits.*

Regulatory measures

5.34 In March 2013, the EDB informed Audit that:

- (a) the KG rent reimbursement scheme was introduced in 1982 and the Voucher Scheme in 2007. When the latter was introduced, there was no policy intention to alter fundamentally the rent reimbursement scheme. Any changes to the rent reimbursement scheme ought to be preceded by due approvals following a policy review;
- (b) in administering the Voucher Scheme, the EDB would, first and foremost, seek to ensure that parents' affordability would not be eroded. Any rental payment in excess of the amount reimbursed would not be taken as an expenditure item to justify school fee increase so as to protect the interests of parents. Secondly, the EDB would safeguard taxpayers' money by ensuring that the rentals reimbursed would be no more than that assessed by the RVD; and
- (c) notwithstanding the above, the EDB would review the KG rent reimbursement scheme alongside the study of free KG education.

Significant rental payments and their disclosure by Scheme KGs

5.35 As mentioned in paragraph 5.3, the EDB has adopted a stringent fee approval mechanism in considering school fee revisions. It is also mentioned in paragraph 5.29 that rental payments for school premises are very often one of the major operational expenditure items for a KG (including Scheme KG). In its examination of school fee revision applications, the EDB would seek advice from the RVD on the reasonableness of the reported rentals for selected cases which involved significant rental payments (Note 22). For Scheme KGs with rentals assessed by the RVD as excessive (i.e. above the open-market rentals), the RVD's assessed rentals, instead of the reported rentals, would be used in the calculation of the revised school fee.

Note 22: *Each year, the EDB referred rental cases which met certain criteria to the RVD for assessment. The criteria might be revised from time to time.*

5.36 In the EDB's processing of the school fee revision applications of 2007/08 to 2012/13, Audit noted that it had referred the rentals in 182 cases to the RVD for assessment. In 30 cases, the RVD had assessed the rentals as excessive and the EDB had taken the RVD's assessed rentals, instead of the reported rentals, as the allowable expenditure in considering Scheme KGs' school fee revision applications, but the EDB did not take other actions to follow up the rentals reported in their audited accounts. In this connection, the EDB explained to Audit in March 2013 that the rental payments were made according to a private contract between the landlord and the tenant, and a difference between the RVD's assessed rental and the actual rental (which was subject to market force) was unavoidable. In the EDB's view, it was unreasonable to require all Scheme KGs to pay rentals according to the RVD's assessment and, as already pointed out in paragraph 5.35, excessive rentals were not allowed as expenditure charges in the assessment of school fee revision applications and the RVD's assessment would be taken as the allowable expenditure instead.

5.37 Audit noted that there were cases with significant variances between the reported rentals and the RVD's assessed rentals. A few examples are shown below:

Scheme KG	Reported monthly rental (a) (\$)	RVD's assessed rental (b) (\$)	Variance	
			Amount (c) = (a) – (b) (\$)	Percentage (d) = $\frac{(c)}{(b)} \times 100\%$
KG 24	120,750	65,500	55,250	84 %
KG 28	126,340	73,000	53,340	73 %
KG 29	90,000	53,000	37,000	70 %
KG 31	260,000	160,000	100,000	63 %

Audit further noted that on some occasions, the excessive rental payments were made by Scheme KGs to related parties, but were not disclosed in their audited accounts.

Regulatory measures

5.38 According to the EDB, Scheme KGs are not subvented organisations and should be allowed to preserve flexibility and adaptability. However, according to the terms and conditions of the Voucher Scheme, Scheme KGs are not allowed to transfer surplus, in whatever form, to any of their sponsoring bodies or other related organisations. Besides, the payment of excessive rentals by Scheme KGs to their sponsoring bodies or related organisations will increase the cost of operation of the KGs and reduce the reserve level.

5.39 The EDB informed Audit in March 2013 that it would alert Scheme KGs which were paying significantly higher rental payments to look into the matter, and it would continue to keep in view the reserve levels of Scheme KGs, particularly those paying excessive rentals. The EDB also indicated that it would remind Scheme KGs to make proper disclosure of related party transactions in both their applications for school fee revision and their audited accounts.

Timely completion of annual reviews of audited accounts

5.40 *Late submission of audited accounts and completion of review.* 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 2007/08 to 2010/11, about half of the Scheme KGs submitted their audited accounts late. For the 2009/10 audited accounts, 380 Scheme KGs submitted their accounts after the deadline of February 2011. Of the 380 Scheme KGs:

- (a) 307 (81%) submitted within 3 months after deadline;
- (b) 61 (16%) submitted 3 to 6 months after deadline; and
- (c) 12 (3%) submitted 6 to 13 months after deadline.

Audit also noted that the EDB had not reviewed Scheme KGs' audited accounts in a timely manner. In each of the three years of 2007/08 to 2009/10, the EDB completed its reviews more than 12 months after the submission deadline. An improvement was noted with the EDB's completion of its annual review of the 2010/11 audited accounts in less than 12 months. Details are shown below:

School year of audited accounts	Deadline for submission	Completion of EDB's review
2007/08	Feb. 2009	Apr. 2010
2008/09	Feb. 2010	Apr. 2011
2009/10	Feb. 2011	Apr. 2012
2010/11	Feb. 2012	Nov. 2012

5.41 Upon completion of its review each year, the EDB would issue a review report summarising its overall findings. As mentioned in paragraph 5.40, the review reports were issued long after the end of the related school year. Thus, follow-up actions on issues and irregularities identified were taken long after they occurred. For example, for the non-compliances identified in the 2007/08 and 2008/09 audited accounts, the EDB did not issue advisory letters until June 2011 (i.e. 14 months after the issue of the 2007/08 review report) to the Scheme KGs to seek explanations. For the non-compliances identified in the 2009/10 audited accounts, advisory letters were not issued until June 2012.

5.42 In February 2013, the EDB informed Audit that owing to the late submission by Scheme KGs of the audited accounts, coupled with the need to conduct the more time-critical annual school fee revision exercise, its staff had to review the audited accounts by stages. An interim review of the audited accounts was usually conducted between March and August each year, during which the EDB would follow up with the Scheme KGs on non-compliances and qualified audit opinions made by the KG auditors. The final review was usually completed about eight months after the fee revision exercise in April of the following year. Nonetheless, the EDB had made vigorous efforts to speed up its completion of the annual review of the 2010/11 audited accounts, which was completed by November 2012, five months earlier than the previous completion cycle (April of the following year).

5.43 Audit commends the EDB's efforts in expediting its 2010/11 review and issuing advisory letters to Scheme KGs by January 2013, and urges the EDB to continue its efforts to further streamline its review procedures.

PART 6: DISCLOSURE AND TRANSPARENCY

6.1 This PART examines the effectiveness of the EDB's efforts in enforcing the disclosure and transparency requirements of the Voucher Scheme (see para. 2.3(c)).

Disclosure and transparency requirements

6.2 In September/October each year, the EDB publishes the KG Profile to facilitate parents to make their choice of KGs. The electronic version of the KG Profile is uploaded onto the EDB's website in September whereas printed copies are available at the regional offices of the EDB and a number of other government offices (Note 23).

6.3 To join the Voucher Scheme, a KG is required to meet stipulated disclosure and transparency requirements (see para. 2.3(c)). One of the requirements is that the KGs should disclose to the public their key operational details (including additional charges for optional school items/services) and give consent to publish such information in the KG Profile issued by the EDB from time to time to the public. Figure 5 shows the information disclosed in the 2012 KG Profile.

Note 23: *The public can get access to a printed copy at the Public Enquiry Service Centres of the Home Affairs Department, Maternal and Child Health Centres of the Department of Health, Integrated Family Service Centres of the Social Welfare Department and public libraries.*

Figure 5
2012 KG Profile



Key operational details disclosed by individual Scheme KGs

- Name of supervisor and principal
- Number, qualifications and salary range of the principal and teaching staff
- Number of students
- School curriculum
- School characteristics and activities
- School expenditure information
- Approved school fee
- Approved lunch charges (for WD KG)
- Reference prices for major school items, namely:
 - summer uniform
 - winter uniform
 - school bag
 - learning materials

Source: EDB records

Audit findings

Disclosure of fees charged by Scheme KGs

6.4 As mentioned in paragraphs 5.25(c), miscellaneous fees (other than school fees and lunch charges) charged by some Scheme KGs could be quite substantial and, in some cases, were equivalent to 24 % to 44 % of the school fees. Audit however noted that 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 (see Figure 5 in para. 6.3).

6.5 Table 6 shows school items/services disclosed in the KG Profile and examples of other items/services not disclosed.

Table 6

Fees disclosed/not disclosed in the 2012 KG Profile

Fees disclosed	Examples of fees <u>not</u> disclosed
<ul style="list-style-type: none"> • School fees • Lunch charges <p>Have to be approved by the EDB</p> <p><i>Four major school items:</i></p> <ul style="list-style-type: none"> • Prices for summer uniforms • Prices for winter uniforms • Prices for school bags • Charges for learning materials 	<p><i>Other miscellaneous fees:</i></p> <ul style="list-style-type: none"> • Charges for textbooks • Charges for workbooks • Charges for stationery • Fees for tea and snacks • School bus fares

Source: Audit analysis of EDB records

6.6 Audit's analysis of the price information provided by 121 Scheme KGs surveyed in late 2012 (see Appendix A) revealed that all of the Scheme KGs surveyed had charged miscellaneous fees in 2011/12. However, not all of the fees they charged were published in the KG Profile or on their school websites. Audit found that in 2011/12, of the 121 Scheme KGs surveyed, 60% of the total amount of miscellaneous fees they charged were not disclosed in the KG Profile (Note 24). A few examples are shown below.

Scheme KG	Miscellaneous fees pspp (percentage)		
	Disclosed in 2012 KG Profile (a)	Not disclosed in 2012 KG Profile (b)	Total (c) = (a) + (b)
<i>HD classes</i>			
KG 35	\$1,294 (36%)	\$2,330 (64%)	\$3,624 (100%)
KG 36	\$1,092 (41%)	\$1,566 (59%)	\$2,658 (100%)
KG 37	\$1,415 (41%)	\$2,015 (59%)	\$3,430 (100%)
<i>WD classes</i>			
KG 38	\$1,330 (24%)	\$4,154 (76%)	\$5,484 (100%)
KG 39	\$888 (27%)	\$2,361 (73%)	\$3,249 (100%)
KG 40	\$193 (14%)	\$1,230 (86%)	\$1,423 (100%)

Note 24: The calculation was based on the assumption that the parents had purchased all chargeable school items and paid services from the Scheme KGs for their children.

Disclosure and transparency

As an illustration, the miscellaneous fees charged by KG 39 in 2011/12 is analysed below:

Miscellaneous fees charged by KG 39 (2011/12)

School items/services	Miscellaneous fees pspa (Note)		
	Disclosed in 2012 KG Profile	Not disclosed in 2012 KG Profile	Total
	(\$)	(\$)	(\$)
Summer uniform	310	—	310
Winter uniform	444	—	444
School bag	60	—	60
Learning materials	74	—	74
Workbooks	—	203	203
Tea and snacks	—	720	720
Sundries (e.g. cutlery and towel case)	—	102	102
Textbook	—	887	887
Bedding items	—	200	200
Stationery and handcraft	—	249	249
Total	888 (27%)	2,361 (73%)	3,249 (100%)

Source: Audit survey

Note: Miscellaneous fees did not include school fees and lunch charges (see para. 5.25(a)).

6.7 Audit understands that it may not be possible to publish an exhaustive list of school items and paid services in the KG Profile which is supposed to provide only the basic price information for parents' reference. Nonetheless, Audit considers that it will be desirable to disclose more information on charges for school items and services as far as possible.

6.8 To enhance disclosure and transparency, the EDB may consider collecting price information from Scheme KGs, other than the four major items, a few other common and essential school items and services and publish them in the KG Profile as far as possible. Such items may include, for example:

<i>HD</i>	<i>WD</i>
<ul style="list-style-type: none">• Charges for textbooks• Charges for workbooks• Fees for tea and snacks	<ul style="list-style-type: none">• Charges for textbooks• Charges for workbooks

6.9 In March 2013, the EDB informed Audit that it would add a few other common school items/paid services in the KG Profile for parents' information, and it had all along been encouraging Scheme KGs to disclose other charges for optional school items/services through other effective means (e.g. leaflet).

Disclosure of KGs' performance

6.10 In its 2010 review, the Education Commission considered that transparency of KG operation and uploading of the QR reports to the EDB's website would provide parents with information to make an informed choice of KGs for their children. Noting KGs' concerns that the QR reports might not be able to reflect their latest developments, the Commission considered that KGs should upload their School Reports and School Plans onto their websites to provide parents with updated information about the KG.

6.11 As mentioned in paragraph 4.11, Scheme KGs seldom uploaded their School Reports and/or School Plans onto their school websites. As informed by the EDB in March 2013, not all KGs maintained their own websites, and based on its experience gained from the development process of the primary school sector, the EDB expected that Scheme KGs might take time to get used to the practice, given their concern for workload and the availability of their own websites. That notwithstanding, the EDB has been encouraging Scheme KGs to upload their School Reports/School Plans onto KGs' website through school circulars and during school visits, and will continue to do so.

PART 7: WAY FORWARD

7.1 This PART examines the way forward for the implementation of the Voucher Scheme.

Achievements of the Voucher Scheme

7.2 Whilst KGs are subject to the regulations of the EDB, it is intended that they operate in a wholly private market which is subject to market forces, parents' demands and competition. Since the introduction of the Voucher Scheme, some 80% of KG students have received direct financial subsidy on school fee through the voucher, compared with some 50% under the previous KCSS. As reported in PART 2, the Scheme has eased the financial burden on parents. Under the Scheme, KG principals and teachers have also benefited from the financial assistance provided for their professional development. Improvement in the professional qualifications of the KG sector is evident.

7.3 The Education Commission concluded in its 2010 review that the Voucher Scheme has the following achievements:

- (a) it has capitalised on the current strengths to add impetus for continuous improvement by enhancing parental choice and the professional qualifications of KG principals and teachers to better respond to the demand for high quality services;
- (b) it has maintained wide eligibility, even though choice for parents under the Scheme is not unfettered. KGs operate in a "quasi-market" environment and are regulated under the Government's governance framework, which accommodates flexibility and diversity on the one hand and aims to ensure quality on the other. The diversity and vibrancy of pre-primary education services, which are the strengths that the Government should maintain and build on, have also attended to the varied needs of parents for a pre-primary education system; and
- (c) it has also made a significant achievement by requiring all KGs to practise self-evaluation, complemented by the EDB's QR.

7.4 On the way forward, the Education Commission considered that the next phase of development of the Voucher Scheme should further facilitate access by parents to affordable and quality KG education, and should enhance the capacity of the sector in providing quality KG education for continuous and sustainable development.

Declining participation in the Voucher Scheme

7.5 When the Voucher Scheme was introduced, the EDB estimated that 80% of the KGs would join the Scheme, covering 90% of the eligible children. As at September 2007, there were 989 KGs, including 913 local KGs. In 2007/08 when the Scheme was introduced, 843 local KGs joined, including 768 NPM KGs and 75 PI KGs. The participation rate of NPM local KGs was 78% (Note 25). As at September 2012, the number of Scheme KGs was 735 (see para. 2.14). Appendix F shows the Scheme participation by KGs in 2007/08 and 2012/13.

7.6 Over the years from 2007/08 to 2012/13, there was a net decrease of 33 (768 less 735) NPM local KGs participating in the Voucher Scheme, as follows:

- | |
|---|
| <ul style="list-style-type: none">+ 32 PI KGs were converted to NPM and became eligible+ 16 KGs joined the Scheme– 66 KGs were closed– 14 KGs opted out of the Scheme (in 2012/13)– 1 KG was disqualified |
|---|

Figure 6 shows the participation by KGs in the Voucher Scheme from 2007/08 to 2012/13.

Note 25: *Among the 989 KGs, 768 NPM local KGs participated in the Voucher Scheme. The Scheme participation rate of NPM local KGs was 78%.*

Figure 6

**Participation by KGs in the Voucher Scheme
(2007/08 to 2012/13)**



Legends: ■ PI Scheme KGs
■ NPM Scheme KGs

Source: EDB records

Note: From 2007/08 to 2009/10, PI KGs were allowed to participate in the Scheme as a transitional arrangement (see Note 8 to para. 2.3(a) and also Appendix F).

7.7 As at September 2012, there were 957 KGs , including 861 local KGs. A total of 735 NPM local KGs participated in the Voucher Scheme while 22 NPM local KGs did not participate in the Scheme (see Appendix F). The KG participation rate was 77%.

Scheme KGs	Non-Scheme KGs	Total
735	222 (Note)	957
77%	23%	100%

Source: EDB records

Note: These comprised 126 local KGs (including 22 NPM ones) and 96 non-local KGs.

In October 2012, 14 Scheme KGs informed the EDB that they would opt out with effect from 2013/14. Taking into account 14 Scheme KGs which opted out in 2012/13 (see para. 7.6), in the two school years of 2012/13 and 2013/14, a total of 28 (14 + 14) KGs had left or would leave the Scheme.

7.8 In 2007/08, 120,000 KG students were receiving fee subsidy under the Scheme whereas in 2012/13, 129,000 KG students were receiving fee subsidy under the Scheme, as shown below (para. 2.13 is also relevant):

2007/08 (as at September 2007)			2012/13 (as at September 2012)		
Scheme students	Non-Scheme students	Total	Scheme students	Non-Scheme students	Total
120,000 (Note)	19,000	139,000	129,000	35,000	164,000
86%	14%	100%	79%	21%	100%

Source: EDB records

Note: These comprised 111,000 students studying in 768 NPM local Scheme KGs and 9,000 students in 75 PI Scheme KGs (see para. 7.5).

Way forward

7.9 The figures show that although most of the NPM local KGs are still participating in the Scheme, there is a decrease in the number of Scheme KGs from 768 in 2007/08 to 735 in 2012/13 and in the KG participation rate (from 78% to 77% — see Appendix F). Although the number of KG students receiving vouchers has increased from 120,000 to 129,000 in the same period, the student participation rate has decreased from 86% to 79%. Given that it is the EDB's intent to enhance the choice of parents, the decrease in the rate of participation of KGs and students in the Scheme calls for the EDB's attention. The EDB needs to keep in view the Scheme participation trend and ascertain the reasons for the declining participation.

Challenges ahead

7.10 As one major education initiative in the 2013 Policy Address (see para. 1.8), the Secretary for Education has announced that providing practicable 15-year free education and better quality KG education is one of the priorities of the current-term Government. More specifically, the Secretary has indicated that:

- (a) the EDB will set up a committee (see para. 1.11(c)) to study and make specific proposals on how to practicably implement free KG education; and
- (b) in 2013/14, the EDB will provide Scheme KGs with an additional one-off grant to carry out minor improvement works and procure furniture and learning resources, etc.

Audit recommendations

7.11 In view of the far-reaching implications of KG education on our future generations, the Committee on Free KG Education, to be set up in April 2013, will examine various issues on KG education, including issues for possible improvement and recommendations on the way forward. **In relation to the Voucher Scheme, Audit has recommended that the Secretary for Education should:**

PART 2: Overview of the Voucher Scheme and its financial features

- (a) **conduct a review of the Voucher Scheme with a view to enhancing the Scheme, so that it will continue to be effective in meeting the expectations of the stakeholders (paras. 2.17 to 2.20);**

PART 3: Professional development of KG principals and teachers

- (b) explore how assistance and support, outside the Voucher Scheme, can further be provided to KG principals and teachers who have yet to complete their professional upgrading (para. 3.13);
- (c) continue to monitor the wastage rate of KG teachers to ensure that the supply of KG teachers is not affected by a high wastage rate (para. 3.15);
- (d) keep in view the turnover rate of KG teachers, ascertain if the high turnover in 2010/11 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 (para. 3.21);
- (e) follow up on the Education Commission's recommendation made in its 2010 review that an advisory body should be set up to take a professional view on various issues relating to the long-term development and quality of KG education, such as a reference salary scale for teachers and principals and their continuous professional development (para. 3.22);

PART 4: Quality assurance mechanism

- (f) provide appropriate training and support to help Scheme KGs conduct self-evaluations and disseminate the self-evaluation results to parents (para. 4.12);
- (g) expedite the completion of the consultancy report on the effectiveness of the QR mechanism (para. 4.14);

PART 5: Regulatory measures

- (h) in the forthcoming review of KG education, devise a suitable mechanism, as appropriate, for regular review of the school fee ceilings to cater for special adjustments required due to changes in circumstances in addition to changes in the CCPI (para. 5.14);
- (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 (para. 5.22);
- (j) remind Scheme KGs of the need to comply with the EDB's administrative directives on trading activities (para. 5.22);
- (k) remind Scheme KGs to properly classify their miscellaneous fees in the audited accounts in accordance with the guidelines issued by the EDB, step up the EDB's review of the miscellaneous fees reported in the audited accounts and, where appropriate, require the Scheme KGs to rectify or provide supplementary information (para. 5.27);
- (l) review the EDB's KG rent reimbursement practices in its forthcoming review of KG education, and revise them if necessary (para. 5.33);
- (m) remind Scheme KGs to make proper disclosure of related party transactions in both their applications for school fee revisions and their audited accounts (para. 5.39);
- (n) continue the EDB's efforts in completing the annual review of audited accounts in a timely manner and explore ways to further streamline its review procedures (para. 5.43);

PART 6: Disclosure and transparency

- (o) 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 (para. 6.8);
- (p) 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 (para. 6.11);

PART 7: Way forward

- (q) **keep in view the changes in the participation rates of KGs and KG students in the Voucher Scheme and ascertain the reasons for the declining participation, and explore ways to address the challenges faced by Scheme KGs and the parents of KG students in the forthcoming review of KG education (para. 7.10); and**
- (r) **draw experience from the implementation of the Voucher Scheme and suitably enhance it at an opportune time, taking into account the audit findings and recommendations in this Audit Report.**

Response from the Education Bureau

7.12 The Secretary for Education has said that he will consider the above audit recommendations and take follow-up actions as appropriate. As earlier mentioned, the Committee on Free KG Education will be set up in April 2013 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 this Audit Report.

7.13 More specifically, the Secretary for Education has said that:

- (a) the fee subsidy under the Voucher Scheme is provided to parents, not the KGs. As a corollary, the elaborative regulatory controls embodied in the traditional subvention model for primary and secondary schools do not apply to Scheme KGs. While it is not the Government's policy intent to over-regulate the privately-run Scheme KGs, the EDB has put in place appropriate checks and balances to prevent abuse and to ensure that no excessive expenditure will be passed onto the school fees. Apart from compliance with the Education Ordinance and the Education Regulations, Scheme KGs are required to abide by directives as promulgated by the EDB from time to time. They are also subject to a quality assurance mechanism that combines school self-evaluation and the EDB's QR as well as accountability to stakeholders through transparency and disclosure of the operational details as required by the EDB (see PART 6);

Way forward

- (b) with regard to the audit recommendations on review of the Voucher Scheme to assess whether the Scheme continues to be effective and drawing experience from the implementation of the Scheme (see para. 7.11(a) and (r)), it is worth noting that apart from the comprehensive review conducted under the Education Commission in 2010, the EDB has conducted periodic reviews on the implementation of the Voucher Scheme and improvement measures were introduced in 2009, 2011 and 2012 to enable needy families to access to affordable quality KG education (see paras. 2.9 and 2.11);
- (c) he agrees with the audit recommendation in paragraph 7.11(b) that the EDB should explore means outside the Voucher Scheme to further support KG principals and teachers who are yet to achieve their professional upgrading;
- (d) he notes the audit recommendation in paragraph 7.11(c) that the EDB should continue to monitor the wastage rate of KG teachers to ensure that the supply of KG teachers is not affected by a high wastage rate;
- (e) regarding the audit recommendation in paragraph 7.11(d), as staff management is under the domain of “Management and Organisation” of KGs’ self-evaluation mechanism (see Figure 2 in para. 4.6), the EDB will look into staff management issues when it conducts QRs to validate the Scheme KGs’ self-evaluation results. Should the outflow of regular teachers in individual KGs warrant attention, the EDB will look into the matter and advise the KGs on enhancement measures with a view to ensuring the quality of their education service;
- (f) he notes Audit’s concern in paragraph 7.11(e) about the long-term development and quality of KG education, including issues about a reference salary scale for teachers and principals and their professional development, and the audit recommendations in paragraph 7.11(h), (q) and (r) will be studied by the Committee on Free KG Education in due course;
- (g) he accepts the audit recommendations in paragraph 7.11(f), (j), (k), (m) to (p) and accepts in principle the audit recommendation in paragraph 7.11(i); and
- (h) the EDB will review the KG rent reimbursement scheme, as Audit recommended in paragraph 7.11(l) alongside the study of free KG education.

7.14 Regarding the regulatory measures in PART 5, the Secretary for Education has also said that:

- (a) Scheme KGs' compliance is monitored through school visits, on-site audit inspections and annual review of audited accounts. If non-compliance is identified, management/advisory letters would be issued to the Scheme KGs concerned demanding rectifications. Follow-up action will be taken to ensure timely rectification of the irregularities/malpractices. Scheme KGs that fail to rectify non-compliance issues may not be allowed to join/stay in the Voucher Scheme;
- (b) in noting the non-compliance and improvement areas as pointed out by Audit, the EDB considers that due consideration should be given to the small scale of the majority of the Scheme KGs and that reasonable time should be allowed for these KGs to establish the necessary systems and procedures with an aim to conforming with the requirements and guidelines set by the EDB. Since the introduction of the Voucher Scheme in 2007/08, the EDB has seen improvements over the years in their management, e.g. the number of Scheme KGs making excessive trading profits in 2010/11 has been reduced by one-third as compared with that in 2009/10 and there have been improvements in the timing that the KGs submitted their audited accounts; and
- (c) apart from its monitoring role, the EDB also supports Scheme KGs in enhancing their quality of education through professional development programmes, school-based support services and professional advice given during school visits, etc.

Audit surveys

A. Questionnaire survey conducted in late 2012 (Note)

1. Objective: To collect details of miscellaneous fees, other than school fees and lunch charges, charged by Scheme KGs on students.
2. Methodology: A letter, together with a questionnaire and a stamped addressed envelope, were sent to individual Scheme KGs selected for the survey (see para. 3 below). Each Scheme KG was asked to provide Audit with the details of miscellaneous fees they charged each student in 2011/12. Audit had assured them in the covering letter that the information collected would be treated in strict confidence, with no disclosure of the identities of individual Scheme KGs.
3. Basis of selection: 188 (26%) Scheme KGs were randomly selected from the EDB's list of 735 KGs approved to join the Voucher Scheme in 2012/13. Scheme KGs of different sizes located in 18 districts of the territory were chosen for the survey.
4. Response rate: Of the 188 Scheme KGs surveyed, 121 had responded, covering 68 KGs which offered both whole-day and half-day classes, 36 whole-day KGs and 17 half-day KGs. Among the Scheme KGs responded, 44 (36%) were small in size as they enrolled less than 100 students.

B. Interview survey conducted in mid-2012 (Note)

1. Objective: To gauge the views of the Scheme KGs on the implementation of the Voucher Scheme.
2. Methodology: Each principal/supervisor of the 30 Scheme KGs selected was interviewed by two Audit staff. An e-mail summarising their views and comments on the implementation of the Voucher Scheme was subsequently sent to them for their confirmation. Audit had assured the Scheme KGs that their identities would not be disclosed.
3. Basis of selection: A total of 30 Scheme KGs were randomly selected from the EDB's list of approved KGs for 2011/12, including 26 Scheme KGs which continued to join the Scheme in 2012/13 and 4 ex-Scheme KGs which had opted out of the Voucher Scheme in 2012/13.

Note: For both surveys, the EDB had been consulted and was informed of the survey results (without disclosing the identities of individual Scheme KGs).

**Education Commission's recommendations
(December 2010)**

1. The continuation of the Scheme beyond the 2011/12 school year should be subject to periodic review. A further review of ECE in response to developments in the macro environment should be conducted at an opportune time.
2. While keeping the three eligibility criteria for KG admission to the Scheme, the fee thresholds should be subject to an annual review with reference to inflation.
3. The value of the voucher should be subject to an annual review with reference to inflation.
4. While the Fee Remission Scheme should continue to provide additional support to children from needy families attending HD or WD KGs in parallel with the Scheme, the percentage of fee remission should be calculated after first deducting the voucher subsidy. Social need assessment for needy children whose parents are applying for fee remission for attending WD KGs is to be removed.
5. Building on the current governance structure, while the QR is to be continued, the EDB needs to identify information that would contribute to transparency and dissemination of good practices to the public, especially parents, and involve professionals in the KG sector to fine-tune the review process so that the QR is improvement-oriented. A mechanism is to be put in place to give attention to the under-performing KGs.
6. Parent education should be enhanced to support parents in making informed choices of KGs for their children. The EDB should also encourage parental partnership with KGs in promoting the learning and development of children.
7. Local studies and research on the latest development of pre-primary education should be encouraged to inform good practices for future development.

8. Scheme KGs with sufficient number of qualified teachers based on the teacher to child ratio of 1:15 might continue to employ teachers with Qualified KG Teacher qualifications, or a qualification acceptable to the EDB to meet their individual needs. In-service training opportunities should continue to be provided for serving unqualified teachers. In the interim of two years and under special circumstances, the EDB might consider counting those teachers pursuing the C(ECE) qualifications as C(ECE) teachers for the purpose of meeting the 1:15 teacher to child ratio requirement.
9. The EDB should continue to provide support for the professional development of KG teachers and principals. KGs are also encouraged to apply for the support of the Qualified Education Fund for school-based initiatives.
10. An advisory body should be set up to take a professional view on various issues relating to the long-term development and quality of pre-primary education, such as a reference salary scale for teachers and principals and their continuous professional development.
11. The schedule for disbursing voucher subsidy to KGs should be revised to follow the tuition fee payment schedule of KGs so as to reduce their difficulties in handling administrative and accounting work.
12. The existing policy and arrangements for rents, rates and government rent reimbursement for KGs should continue rather than subsuming these elements under the voucher subsidy.

Source: 2010 Report on Review of the Pre-Primary Education Voucher Scheme by the Working Group under the Education Commission

List of components of school fees for KGs

In the use of resources from school fees, KGs should be prudent and always put students' interest as the first priority. Expenses of KGs financed by the school fees should be devoted to supporting teaching and learning activities, the operation of the KG and maintenance of the standard of education service. Details of the items are listed below:

- (a) salaries, provident funds, mandatory provident fund, long service payment of teaching and non-teaching staff employed;
- (b) the remuneration of school supervisors;
- (c) rent and management fees, rates and government rent for the KG premises;
- (d) furniture and equipment for school and education purposes and teaching aids such as library books, reference materials, worksheets for teachers and students;
- (e) expenses on repairs, maintenance and improvement works of the KG premises including installation of air-conditioners, double-glaze windows and exhaust fans, maintenance contract, inspection fees for maintaining fire, gas, electrical installation and building safety;
- (f) water and electricity (including air-conditioning) charges, telephone line, fax line and Internet service charges;
- (g) cleaning fees (including cleaning contract and the provision of cleaning facilities to students);
- (h) expenses on printing, paper, teachers' stationery and other consumables for teaching activities;
- (i) postage charges and publications;
- (j) insurance premium and expenses on first aid and fire safety equipment;
- (k) audit fees and other service charges in connection with school administration;
- (l) transportation fees for school administration purposes;
- (m) expenses on regular learning activities for all students, conducted either inside or outside the school premises (these should include expenses for birthday parties, graduation ceremony, school outing, picnics and visits);
- (n) student handbooks, profiles, graduation certificates and identity cards; and
- (o) other expenses directly related to teaching activities, school operation and maintenance of the standard of education service for educational purposes.

Source: EDB records

**Miscellaneous fee income collected by four Scheme KGs
(2010/11)**

Reported as “other operating income”		Reported as “income from trading activities”	
KG 6			
	\$		\$
Registration fee	56,495	Textbooks	73,555
Outing activities	135,303	DVD/ VCD	252,800
Graduation ceremony	93,225	School bus fee	2,263,264
Photo finishing	12,160	Tea, snack & cake	1,057,910
Air-conditioner	376,500	Miscellaneous	2,361,973
Total	<u>673,683</u>	Total	<u>6,009,502</u>
KG 16			
Registration fee	33,900	Exercise books and stationery	569,094
		School uniforms and bags	139,674
		Tuckshop income	234,190
		Activities	538,836
Total	<u>33,900</u>	Total	<u>1,481,794</u>
KG 17			
Extra-curricular fee	3,200	Books and stationery	113,762
Graduation fee	9,490	Tea party fee	95,386
Photos and minor income	2,711		
Registration fee	600		
Reservation fee	6,864		
Total	<u>22,865</u>	Total	<u>209,148</u>
KG 18			
Interest group income	265,860	Books and miscellaneous	227,430
School bus income	73,858	School uniform	54,593
Activities income	4,084		
Total	<u>343,802</u>	Total	<u>282,023</u>

Source: EDB records

Reimbursement of rentals, rates and government rents to KGs

1. The EDB has been providing financial assistance to NPM KGs in the form of reimbursement of rent and rates since 1982. Since 1997, the reimbursement of government rents, where applicable, has also been provided.

Reimbursement of rentals

2. All NPM KGs which are exempt from tax under the Inland Revenue Ordinance can apply for rental reimbursement under the reimbursement scheme. When applying to join the reimbursement scheme for the first time, a KG has to submit a completed application form, lease agreement, rental receipt, tax exemption certificate and documentary evidence provided by the landlord indicating that the property can be sublet for rental purposes.

3. ***Eligibility criteria for joining the rent reimbursement scheme.*** A vetting committee within the EDB, chaired by a Principal Education Officer, will consider each new application on its own merits based on the criteria listed below:

- (a) the operating standard of the KG;
- (b) the curriculum standard of the KG;
- (c) the standard of the school premises;
- (d) compliance with the Education Ordinance and Education Regulations and the EDB's administrative directives; and
- (e) other factors (including the demand of KG places in the district, enrolment capacity, financial implications, school fees level and rental cost, etc.).

4. To be eligible for rental reimbursement, a KG joining the reimbursement scheme must first fulfil the following two conditions:

- (a) charge school fees at a level below a cut-off point to be determined by the EDB; and
- (b) have a rental cost psps not higher than the rental cut-off rate(s) to be determined by the EDB.

The current school fee cut-off point is \$25,200 psps for HD class and \$50,400 psps for WD class. The current rental cut-off rates ranged from \$4,609 psps to \$10,896 psps, depending on the location and classification of school premises.

5. All new applications for rental reimbursement, other than those with their school premises allocated by the School Allocation Committee (Note), will be considered only when the EDB is satisfied that there is a proven demand of KG places in the district.

6. The EDB has full discretion in approving KGs for rental reimbursement. To ensure that the rentals are reasonable, the amounts of the rental reimbursement have to be vetted by the RVD. Only the amounts of rental recommended by the RVD are accepted for reimbursement purposes. If an application is approved, a KG has to reduce the school fees by an amount commensurate with the rental reimbursement.

7. ***Amount of rental to be reimbursed.*** The actual amount of rentals to be reimbursed will be determined by the KG's fill-up rate (i.e. total number of students in the school \div total permitted accommodation as stated on the Accommodation Certificate \times 100%). A KG having a fill-up rate of 50% or above will be granted full reimbursement of the rent approved by the EDB whereas a KG having a fill-up rate below 50% will receive 50% reimbursement of the EDB approved rentals.

8. ***Monitoring mechanism.*** To ensure proper use of public fund, all KGs participating in the reimbursement scheme are subject to a two-year monitoring mechanism to assess whether they will continue to be eligible for rental reimbursement. The eligibility criteria listed in paragraphs 3 and 4 above will be used in the monitoring mechanism. The actual amount of rental to be reimbursed will also be determined by the fill-up rate of the KG, as mentioned in paragraph 7 above. After the assessment, the EDB will notify, in writing, KGs which have failed to meet the criteria and give them sufficient time to improve. If these KGs still fail to improve within the given period, rental reimbursement will cease or be reduced by 50% at the start of next school year.

Reimbursement of rates and/or government rents

9. NPM KGs are also eligible for reimbursement of rates and/or government rent for the recognised school accommodation (that is, school portion only) upon application. KGs should submit their applications together with a copy of the demand notes for rates and government rents. New applications for reimbursement of rates and government rents should be supported by the tax exemption certificate.

Source: EDB records

Note: The School Allocation Committee, headed by a Deputy Secretary of the EDB, is tasked to allocate Government-built school premises and school sites to school sponsoring bodies on a competitive basis.

Appendix F
(paras. 7.5 to 7.9 refer)

**Scheme participation by KGs
(2007/08 and 2012/13)**

Types of KGs	Number of KGs	
	2007/08	2012/13
Scheme KGs		
— NPM local	768 (78%)	735 (77%) (Note)
— PI local	75	—
Subtotal	843	735
Non-Scheme KGs		
— NPM local	12	22
— PI local	58	104
— Non-local	76	96
Subtotal	146	222
Total	989 (100%)	957(100%)

Source: EDB records

Note: The figure includes 103 PI local KGs which had converted to NPM status for participation in the Voucher Scheme (see para. 2.14).

Acronyms and abbreviations

Audit	Audit Commission
CCC	Child Care Centre
CCPI	Composite Consumer Price Index
C(ECE)	Certificate in Early Childhood Education
ECE	Early Childhood Education
EDB	Education Bureau
HD	Half-day
KCSS	Kindergarten and Child Care Centre Subsidy Scheme
KG	Kindergarten
LegCo	Legislative Council
LegCo Panel	Legislative Council Panel on Education
NPM	Non-profit-making
PI	Private-independent
pspa	Per student per annum
QKT	Qualified Kindergarten Teacher qualification
QR	Quality review
RVD	Rating and Valuation Department
SFAA	Student Financial Assistance Agency
WD	Whole-day