

# **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.